

## **Information Statement**

### **Federal Home Loan Bank of Des Moines**

#### **Class B Stock**

The FHLB Des Moines (“Bank”) is offering shares of new five-year redeemable Class B Stock (“Capital Stock”) with a par value of \$100 to its stockholders (referred to herein as “Members”) in connection with the implementation of a new capital structure for the Bank. The new capital structure was mandated by the Gramm-Leach-Bliley Act of 1999 (“GLB Act”), which amended the Federal Home Loan Bank Act (“Bank Act”). The shares will be issued pursuant to the Bank’s Capital Plan, which was approved by the Federal Housing Finance Board (“Finance Board”) on July 10, 2002. The Bank is one of twelve Federal Home Loan Banks (“FHLBanks”), which were created by Congress in 1932 to provide liquidity in the mortgage market and to promote homeownership in the United States. Members should review and be thoroughly familiar with the Bank Act, as amended by the GLB Act, and implementing regulations of the Finance Board, as they relate to the new capital structure of the Bank.

At the opening of business on July 1, 2003 (“Conversion Date”), the outstanding shares of existing capital stock of the Bank, other than the shares of Members that have opted out of the conversion process in the manner described herein, will automatically be converted into an equal amount of shares of Capital Stock. Thereafter, the Bank may from time to time issue Capital Stock either to new Members or to current Members in accordance with the Capital Plan, and as necessary to satisfy the Bank’s minimum regulatory capital requirements established by the GLB Act.

The shares of Capital Stock offered hereby will be issued at par value. Redemptions and repurchases of Capital Stock by the Bank must be made at par value. For a discussion of the redemption and repurchase provisions relating to the shares of Capital Stock, see “Description of Capital Plan - Redemption,” “Description of Capital Plan - Repurchase,” and “Description of Capital Plan - Limitations on Redemption and Repurchase.” Any transfers of Capital Stock from one Member to an affiliated Member must also be made at par value. For a discussion of the transfer provisions relating to the Capital Stock, see “Description of Capital Stock - Transfers.” The Capital Stock will not trade in a market and may not be transferred by a Member except under the limited circumstances provided in the Capital Plan.

There are differences between the existing capital stock of the Bank outstanding prior to the Conversion Date and the new Capital Stock being offered. For a discussion of those differences, see “Capital Requirements” and “Description of Capital Stock.”

If you do not opt out of the capital conversion on or before May 30, 2003, your outstanding shares of existing Bank stock will be automatically converted to new Capital Stock redeemable only upon five years notice to the Bank.

**If you do opt out of the capital conversion on or before May 30, 2003, and thereby withdraw from membership, you may not be readmitted to membership in any FHLBank for a period of five years from the date on which your membership terminated.**

**If you do not request that the Bank repurchase some or all of the shares of new Capital Stock that exceed your Minimum Investment as of the Conversion Date on or before June 16, 2003, your shares that exceed your Minimum Investment shall convert into Excess Shares of Membership Stock redeemable only upon five years notice to the Bank. Excess Shares of Membership Stock can not be used to meet a Member's Activity Based Stock Requirement.**

This Information Statement should be read in conjunction with the Bank's Capital Plan, and its Annual Report for the fiscal year ended December 31, 2002, distributed to Members and filed with the Finance Board. See "Incorporation of Certain Documents by Reference."

The Capital Stock is exempt from registration under the Securities Act of 1933, as amended. The Capital Stock has not been approved or disapproved by the Securities and Exchange Commission ("SEC"), or any state securities commission, nor has the SEC, the Finance Board or any state securities commission passed upon the adequacy or accuracy of this Information Statement. Any representation to the contrary is a criminal offense.

The United States Government does not guarantee payments due on funds invested in the stock or indebtedness of the Bank, any dividend payments on shares of Capital Stock or the profitability of the Bank.

No person has been authorized to make any representations or warranties, either express or implied, with respect to the Capital Stock, except the representations contained herein. Only information contained herein, or in documents incorporated herein by reference, may be relied upon by any Member as constituting representations of the Bank. You should assume that the information appearing in this Information Statement or any documents incorporated by reference in this Information Statement is accurate only as of the date on the front cover of the applicable document or as specifically indicated in the document. Our business, financial condition, results of operations and prospects may have changed since that date.

This Information Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the Capital Stock in any jurisdiction in which such offer or solicitation would be unlawful.

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The Date of this Information Statement is April 2, 2003.

## Table of Contents

1	Incorporation of Certain Documents by Reference .....	4
2	Available Information .....	4
3	Introductory Statement.....	4
4	Summary of Capital Stock .....	5
5	Forward-Looking Statements.....	13
6	Capitalization .....	14
7	Business of the Bank.....	18
8	Funding Sources.....	20
9	Management’s Discussion and Analysis .....	23
10	Capital Requirements .....	23
11	Description of Capital Plan.....	28
12	Description of Capital Stock.....	38
13	Risk Factors .....	39
14	Federal Income Tax Implications .....	48
15	Accounting Considerations.....	51
16	Supervision and Regulation .....	53
17	Directors and Senior Officers .....	63
	Exhibit A – Capital Plan .....	65
	Exhibit B – Request for Bank to Repurchase Capital Stock that Exceeds Member’s Minimum Investment Form .....	86
	Exhibit C – Notice of Withdrawal Form.....	87

## **1 Incorporation of Certain Documents by Reference**

This Information Statement incorporates the Bank's Capital Plan and Annual Report for the fiscal year ended December 31, 2002 (the "2002 Annual Report") by reference.

Incorporation by reference means that the information in that document is deemed to be included in this Information Statement. The documents that have been incorporated by reference are an integral part of this Information Statement and should be reviewed by Members in evaluating the Bank's Capital Plan and in determining whether to opt out from the conversion of their existing capital stock.

Any statement contained in the documents incorporated by reference is deemed to be modified or superseded to the extent that any statement in this document contains new or additional information. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Statement.

## **2 Available Information**

Copies of the Capital Plan, the 2002 Annual Report and other information concerning the Bank may be obtained without charge from the Bank's Communications Department at:

FHLB Des Moines  
Skywalk Level  
801 Walnut Street, Suite 200  
Des Moines, IA 50309  
Telephone 800.544.3452

The Capital Plan and the 2002 Annual Report can also be obtained by accessing the Bank's Web site on the internet at [www.fhlbdm.com](http://www.fhlbdm.com). Except for those documents expressly incorporated herein by reference, information contained on the Bank's web site does not constitute part of this Information Statement.

## **3 Introductory Statement**

This Information Statement provides information about the issuance of shares of Capital Stock of the Bank in connection with the implementation of its new capital structure as mandated by the GLB Act. The Capital Stock will be issued at the opening of business on July 1, 2003.

The GLB Act imposes new minimum leverage and risk-based capital requirements on each of the twelve regional FHLBanks. The GLB Act further requires the FHLBanks to implement a new capital structure to replace the stock subscription structure that has been in effect since 1932. Under the new capital structure, the FHLBanks may issue Class A stock or Class B stock, or both, to their Members. Such stock must be issued in amounts sufficient to enable the FHLBanks to satisfy their new minimum regulatory capital requirements.

The principal difference between Class A and Class B stock is that Class A stock is redeemable upon six months notice, whereas Class B stock is redeemable upon five years notice. Class B stock qualifies as permanent as defined by the Bank Act and has a higher weighting than Class A stock for purposes of calculating a FHLBank’s minimum leverage requirement. In addition, the holders of Class B stock own the retained earnings, paid-in surplus, undivided profits and equity reserves, if any, of the Bank.

The Bank has determined to implement its new capital structure through the issuance of Class B stock, which herein is referred to as Capital Stock. Capital Stock will be issued by the Bank pursuant to its Capital Plan, which was approved by the Finance Board on July 10, 2002. Each of the other regional FHLBanks is also required to implement a new capital structure pursuant to capital plans approved by the Finance Board.

Under the Bank’s Capital Plan, the existing stock of each Member will automatically be converted to an equal amount of shares of Capital Stock unless a Member provides written notice to the Finance Board that it intends to withdraw from membership on or before May 30, 2003 (“Opt-out Date”). A copy of this notice must also be provided to the Bank. The membership of a Member that files its Notice of Withdrawal on or before the Opt-out Date shall terminate on the Conversion Date.

Each Member is required to maintain a Minimum Investment in Capital Stock of the Bank on the Conversion Date and thereafter so long as it remains a Member. The Minimum Investment is composed of a “Membership Stock” component and an “Activity Based Stock” component. The Bank may adjust these investment requirements from time to time within the limits established in the Capital Plan. For a discussion of the Minimum Investment requirements initially established by the Bank, see “Description of Capital Plan - Minimum Investment.”

Capitalized terms not otherwise defined in this Information Statement have the meanings provided in the Capital Plan, which is attached hereto as Exhibit A.

#### **4 Summary of Capital Stock**

This summary highlights selected information about the Capital Stock contained elsewhere in this Information Statement. It does not contain all of the information a Member should consider before determining whether to opt out of the conversion to Capital Stock and thereby withdraw from membership in the Bank. You should carefully read this entire Information Statement and any incorporated documents for further information before deciding whether or not to opt out of the conversion.

Issuer.....	Federal Home Loan Bank of Des Moines
Securities Offered .....	Class B Stock, par value \$100 per share, consisting of two subclasses: Membership Stock and Activity Based Stock.
<i>Automatic Conversion ....</i>	On the Conversion Date, each Member that has not opted out of the conversion will have its existing stock automatically converted to Capital Stock on a share-per-share basis.

*Additional Cash Purchases*.....

Each Member that does not own sufficient Capital Stock after the conversion to meet its Minimum Investment will be required to purchase additional shares of Capital Stock such that each Member will thereafter own an amount of Capital Stock at least equal to its Minimum Investment. See “Minimum Investment.”

On the Conversion Date, each Member that owns Capital Stock that exceeds its Minimum Investment and that had not requested the Bank to repurchase its Excess Stock prior to June 16, 2003, will have those shares converted into Excess Shares of Membership Stock.

Minimum Investment .....

Each Member is required to purchase and maintain a Minimum Investment in Capital Stock as a condition to both (1) becoming and remaining a Member of the Bank and (2) obtaining advances and engaging in other transactions with the Bank, as specified in the Capital Plan. Each Member’s Minimum Investment in Capital Stock is the sum of its: (1) Membership Stock Requirement and (2) Activity Based Stock Requirement. Membership Stock can not be used to meet a Member’s Activity Based Stock Requirement.

*Membership Stock*.....

The Membership Stock Requirement is a percentage of the Member’s Total Assets as of the preceding December 31. On the Conversion Date, the Membership Stock Requirement will be 0.12% of a Member’s Total Assets as of December 31, 2002, subject to a Membership Stock floor of \$10,000 and a Membership Stock cap of \$10,000,000.

From time to time after the Conversion Date, the Board of Directors may:

- adjust the percentage of Total Assets to as low as 0.10% or as high as 0.25%;
- adjust the Membership Stock floor to as low as \$10,000 or as high as \$30,000; and
- adjust the Membership Stock cap to as low as \$10,000,000 or as high as \$30,000,000.

*Activity Based Stock.....*

The Activity Based Stock Requirement is equal to a percentage of the book value of advances and other transactions engaged in between a Member and the Bank.

Advances. On the Conversion Date, the Activity Based Stock Requirement for advances will be 4.45%. From time to time after the Conversion Date, the Board of Directors may adjust the percentage to as low as 3.00% or as high as 5.00%.

Acquired Member Assets. On the Conversion Date, the Activity Based Stock Requirement for Acquired Member Assets will be 4.45%. However, Acquired Member Assets purchased by the Bank before the Conversion Date will be subject to the capital requirements specified in contracts in effect at the time the assets were purchased in lieu of the initial Activity Based Stock Requirement. From time to time after the Conversion Date, the Board of Directors may adjust the percentage to as low as 3.00% or as high as 5.00%.

Standby Letters of Credit. On the Conversion Date, the Activity Based Stock Requirement for standby letters of credit will be 0.15%. From time to time after the Conversion Date, the Board of Directors may adjust the percentage to as low as 0.00% or as high as 0.175%.

Advance Commitments. On the Conversion Date, the Activity Based Stock Requirement for advance commitments will be 0.00%. From time to time after the Conversion Date, the Board of Directors may adjust the percentage to as low as 0.00% or as high as 0.35%.

Acquired Member Asset Commitments. On the Conversion Date, the Activity Based Stock Requirement for newly Acquired Member Asset commitments will be 0.00%. From time to time after the Conversion Date, the Board of Directors may adjust the percentage to as low as 0.00% or as high as 0.60%.

The Board of Directors may choose to apply any adjustments in the Activity Based Stock Requirement either prospectively to new advances and other transactions, or prospectively and retrospectively to new and existing advances and other transactions.

Dividends..... The Board of Directors may, but is not required to, declare and pay dividends in either cash or Capital Stock. The Board of Directors may declare and pay different dividends for each subclass of Capital Stock. Unless the Board of Directors declares otherwise, dividends are non-cumulative.

Each member will be entitled to receive dividends on Capital Stock held during the applicable dividend period for the period of time the Member owned the Capital Stock.

*Dividend Restrictions ....* The Bank may pay a dividend only from current earnings or previously retained earnings. The Board of Directors can not declare and the Bank can not pay a dividend if the Bank is not in compliance with any of its minimum regulatory capital requirements or if the payment would cause the Bank to fail to meet any of its minimum regulatory capital requirements.

The Bank also can not pay dividends if (1) the Bank fails to certify in writing to the Finance Board that the Bank will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations, (2) the Bank notifies the Finance Board that it can not provide the foregoing certification, (3) the Bank projects it will fail to comply with statutory or regulatory liquidity requirements, or will be unable to timely and fully meet all of its current obligations or (4) the Bank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or negotiates to enter or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations.

Redemption..... A Member may request to have its Capital Stock redeemed at par value payable in cash five years after providing the Bank with a Notice of Redemption. The Notice of Redemption must specify the subclass and the number of shares of Capital Stock to be redeemed. A Member may cancel its Notice of Redemption subject to payment of a Cancellation Fee that will vary depending on when the cancellation is received by the Bank. The Bank has the right to repurchase Capital Stock that is subject to a redemption request prior to the expiration of the five-year notice period, but is under no obligation to do so.

Repurchase of  
Excess Stock .....

A Member must notify the Bank on or before June 16, 2003 if the Member wants the Bank to repurchase at par value payable in cash any shares of Capital Stock that exceed the Member's Minimum Investment on the Conversion Date. If the Bank receives such notice from a Member on or before the June 16, 2003 deadline, then following the conversion of existing stock to Capital Stock on the Conversion Date, the Bank will repurchase the amount of Excess Stock requested to be repurchased. The Request for Bank to Repurchase Capital Stock that Exceeds Member's Minimum Investment Form is attached hereto as Exhibit B.

After the Conversion Date, the Bank will repurchase Excess Shares of Activity Based Stock that constitute Excess Stock that exceeds an operational threshold on the 15th day of each month. If the 15th day of a month falls on a non-business day the repurchase will occur on the first business day preceding the 15th. The Bank will notify Members at least 15 days in advance of a change in the scheduled date for repurchasing Activity Based Stock.

Each Member may hold Excess Shares of Activity Based Stock up to an initial operational threshold of \$50,000. The Board of Directors may adjust the operational threshold to as low as \$0 or as high as \$250,000. In addition, the Board of Directors has the authority to amend the operational threshold and the operational threshold range to ensure the Bank remains in compliance with its minimum regulatory capital requirements. Any amendment to the threshold or range constitutes an amendment to the Capital Plan and requires prior approval by the Finance Board. The Bank will notify each Member at least 15 days prior to implementing any change in the operational threshold.

After the Conversion Date, the Bank does not intend to repurchase Excess Shares of Membership Stock nor Excess Shares of Membership Stock subject to an outstanding Notice of Redemption prior to expiration of the notice unless it meets the Bank's capital management needs.

Limitations on Redemption  
and Repurchase of Capital  
Stock .....

The Bank can not redeem or repurchase Capital Stock:

- without the prior written approval of the Finance Board, if the Finance Board or the Board of Directors has determined that the Bank has incurred, or is likely to incur, losses that result in or are likely to result in charges against the capital of the Bank. This prohibition shall apply even if the Bank is in compliance with its capital requirements, and shall remain in effect for so long as the Bank continues to incur such charges against capital or until the Finance Board determines that such charges are not expected to continue;
- if the redemption or repurchase would cause the Bank to fail to meet any minimum regulatory capital requirement;
- if the redemption or repurchase would cause the Member to fail to maintain its Minimum Investment in Capital Stock; or
- if the sum of all requested Capital Stock redemptions that the Bank is scheduled to make on any date would cause the Bank to fall below its minimum regulatory capital requirements, in which case the Bank will process redemptions in the order in which notification was received, but in no case will the Bank redeem Capital Stock to the point that it would fail to meet its minimum regulatory capital requirements.

The Bank can not redeem Capital Stock if the Board of Directors suspends redemptions due to its reasonable belief that continued redemption of stock would cause the Bank to fail to meet its minimum regulatory capital requirements, prevent the Bank from maintaining adequate capital against a potential risk that may not adequately be reflected in its minimum regulatory capital requirements, or otherwise prevent the Bank from operating in a safe and sound manner. The Bank can not repurchase Capital Stock without the written permission of the Finance Board during any period in which the Bank has suspended redemption of Capital Stock under the circumstances described in this paragraph.

The Bank can not redeem or repurchase shares of stock from any Member of the Bank if (1) the Bank fails to certify in writing to the Finance Board that the Bank will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations, (2) the Bank notifies the Finance Board that it can not provide the foregoing certification, (3) the Bank projects it will fail to comply with statutory or regulatory liquidity requirements, or will be unable to timely and fully meet all of its current obligations, or (4) the Bank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or negotiates to enter or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations.

Liquidation Rights .....

If the Bank is liquidated, after payment in full to the Bank's creditors, each stockholder will be entitled to receive the par value of its Capital Stock, as well as any retained earnings, in an amount proportional to the stockholder's share of the total shares of Capital Stock outstanding.

Voting Rights for Election  
of Directors .....

Each Member is eligible to vote for the number of open elective director seats in the state in which its principal place of business is located. Each Member shall be entitled to cast one vote for each share of Capital Stock that the Member was required to hold as of the preceding December 31 ("Record Date"), except that the number of votes that each Member may cast for each directorship shall not exceed the average number of shares of Capital Stock that were required to be held by all Members located in that state on the Record Date. No shares of Capital Stock shall have any voting preference. Excess Stock is not counted for purposes of voting.

Conversion Date .....

The Conversion Date is the opening of business on July 1, 2003.

Opt-Out Date ..... Any Member that elects **not** to continue its membership under the Capital Plan must provide a Notice of Withdrawal to the Federal Housing Finance Board, 1777 F Street, N.W., Washington, D.C. 20006, with a copy to the Bank, 907 Walnut Street, Des Moines, IA 50309, Attention: Corporate Secretary, on or before May 30, 2003. The Notice of Withdrawal form is attached hereto as Exhibit C.

Any Member that provides a Notice of Withdrawal to the Finance Board after the Opt-out Date and before the Conversion Date will have its existing stock converted into Capital Stock on the Conversion Date as required by the Capital Plan. The effective date of withdrawal for such Member will be five years from the receipt of the Notice of Withdrawal and the five-year redemption period for the Member's Capital Stock will commence on receipt of the Notice of Withdrawal by the Bank. See "Withdrawal and Termination of Membership."

Withdrawal and Termination of Membership Subsequent to the Conversion Date .....

Subsequent to the Conversion Date, a Member may withdraw from membership by providing a Notice of Withdrawal. A Member that has submitted its Notice of Withdrawal continues to have access to the benefits of membership until the effective date of its withdrawal, but the Bank does not have to provide any further services, including advances, that would mature or otherwise terminate subsequent to the effective date of the withdrawal. The membership of an institution that has submitted a Notice of Withdrawal shall terminate five years from the date of the Bank's receipt of the Member's Notice of Withdrawal, unless the Member has cancelled its Notice of Withdrawal prior to that date. The Bank's receipt of a Notice of Withdrawal also commences the five-year redemption period for all Capital Stock held by that Member that is not already subject to a pending Notice of Redemption.

### **Summary Financial Data**

See the "Financial Highlights" section appearing in the Bank's 2002 Annual Report which is incorporated by reference.

## 5 Forward-Looking Statements

This Information Statement includes statements describing anticipated developments, projections, estimates, or future predictions in our operations, that may be “forward-looking statements.” These statements may be identified by the use of forward-looking terminology, such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” “will,” or their negatives or other variations on these terms. The Bank cautions that, by their nature, forward-looking statements involve risk or uncertainty including the risks set forth below, in the “Risk Factors” section and elsewhere in this Information Statement, and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- economic and market conditions, including changes in interest rates that affect the housing market;
- the Bank’s exposure to credit, interest-rate and counterparty risk and the Bank’s ability to effectively hedge or manage those risks;
- demand for the Bank’s advances resulting from changes in members’ deposit flows and credit demands;
- volatility of market prices, rates and indices that could affect the value of collateral we hold as security for the obligations of the Bank’s members and counterparties to interest-rate exchange agreements and similar agreements;
- political events, including legislative, regulatory, judicial or other developments that affect us, the Bank’s members, counterparties and/or investors in the consolidated obligations of the FHLBank System;
- competitive forces, including without limitation continued consolidation and merger activity in the financial services industry, other sources of funding available to our members, other entities borrowing funds in the capital markets and the ability to attract and retain skilled individuals;
- the Bank’s ability to develop and support technology and information systems sufficient to manage the risks of our business effectively;
- changes in investor demand for consolidated obligations issued by the FHLBank System;
- timing and volume of market activity;
- the Bank’s ability to introduce new products and services, and successfully manage the risks associated with those products and services, including new types of collateral securing advances;

- risk of loss arising from litigation filed against one or more the FHLBanks; and
- the effects of inflation or deflation.

There can be no assurance that other factors not currently anticipated by us will not materially and adversely affect our results of operations. You are cautioned not to place undue reliance on any forward-looking statements made by us or on our behalf. Forward-looking statements speak only as of the date the statement was made. We undertake no obligation to update or revise any forward-looking statement.

## **6 Capitalization**

### **Capital Requirements**

The GLB Act and Finance Board regulations specify that the Bank must meet certain minimum regulatory capital requirements, including the maintenance of a minimum level of permanent capital, as a cushion against losses. The Bank must maintain:

- a capital ratio of at least 4%;
- a leverage capital ratio of at least 5%; and
- permanent capital in an amount equal to or greater than the risk-based capital requirement, which is the sum of the Bank's credit risk, market risk and operations risk capital requirements described below.

You should also refer to "Capital Requirements - The GLB Act" for more information regarding the Bank's minimum regulatory capital requirements.

#### **(1) Capitalization and Capital Ratio Compliance**

The capital ratio is the ratio of the Bank's total capital to its total assets. Finance Board regulations define total capital as the sum of: (a) permanent capital; (b) the amount paid-in for Class A stock; (c) the amount of the general allowance for losses; and (d) the amount of any other instruments identified in the Bank's Capital Plan and approved by the Finance Board. Since the Bank has not issued and will not be issuing Class A stock and has no general allowance for losses or any other instruments identified in the Capital Plan and approved by the Finance Board, subsections (b), (c) and (d) are not applicable to the Bank. Permanent capital is defined as retained earnings, determined in accordance with generally accepted accounting principles ("GAAP"), plus the amount paid-in for the Bank's Class B Stock. Total assets are defined as total assets as determined in accordance with GAAP.

The following table sets forth as of December 31, 2002, the Bank's (1) actual capitalization and capital ratio and (2) pro forma capitalization and capital ratio, adjusted to give effect to the implementation of the Capital Plan as if the Conversion Date had occurred on December 31, 2002. The pro forma information in each of the following tables is based on various assumptions set forth under "Material Assumptions" below and should be read in conjunction with the 2002 Annual Report, which is incorporated by reference. Any pro forma information presented in this Information Statement does not purport to present what the Bank's actual financial condition will be for any future period.

(\$ in thousands)	<b>December 31, 2002</b>	
	<b>Actual</b>	<b>Pro Forma</b>
Existing Capital Stock .....	\$ 1,858,180	N/A
Class B Capital Stock - Membership.....	N/A	\$ 327,842
Class B Capital Stock - Activity.....	N/A	1,241,631
Retained Earnings.....	<u>50,130</u>	<u>50,130</u>
Total Capital <sup>1</sup> .....	1,908,310	1,619,603
Total Assets .....	42,254,372	38,060,670
<b>Capital Ratio .....</b>	<b>4.52%</b>	<b>4.25%</b>
<b>Minimum Capital Ratio .....</b>	<b>4.00%</b>	<b>4.00%</b>

## (2) Leverage Capital Ratio Compliance

The Bank's leverage capital ratio is the ratio of total capital to total assets. Total capital is computed by multiplying the Bank's permanent capital by 1.5 and adding this product to all other components of total capital described in (1) above and dividing by the Bank's total assets. Permanent capital is defined as in (1) above.

The following table sets forth as of December 31, 2002 the Bank's actual and pro forma leverage capital ratio. The pro forma information assumes that the Conversion Date had occurred on December 31, 2002.

(\$ in thousands)	<b>Pro Forma</b>
Total Capital <sup>1</sup> .....	\$ 1,619,603
Leverage Capital.....	2,429,404
Total Assets .....	38,060,670
<b>Leverage Capital Ratio .....</b>	<b>6.38%</b>
<b>Minimum Leverage Capital Ratio .....</b>	<b>5.00%</b>

<sup>1</sup> Total capital does not include accumulated other comprehensive income

### (3) Permanent Capital Compliance

As defined above, permanent capital is equal to the sum of retained earnings and the amount paid-in for Class B Capital Stock. The Bank is required to maintain permanent capital in an amount that exceeds the Bank's risk-based capital requirement. The risk-based capital requirement has three components:

(a) "Credit risk capital" is the sum of the capital charges for the Bank's assets, off-balance-sheet items and derivatives contracts. These charges are calculated using the methodology and risk weights assigned to each classification as prescribed in Finance Board regulations. The Bank may request approval from the Finance Board at some future date to use a model-based approach for determining credit risk, but has not done so at this time;

(b) "Market risk capital" is the sum of (1) the market value of the Bank's portfolio at risk from movement in interest rates, foreign exchange rates, commodity prices and equity prices that could occur during times of market stress and (2) the amount, if any, by which the current market value of total capital is less than 85% of the book value of total capital. The Bank must calculate the market value of its portfolio at risk and the current market value of its total capital by using either an internal market risk model or internal cash flow model approved by the Finance Board. The Bank's internal market risk model was approved by the Finance Board on March 19, 2003.

(c) "Operations risk capital" is equal to 30% of the sum of the Bank's (1) credit risk capital requirement and (2) market risk capital requirement, subject to a reduction with Finance Board approval to no less than 10% of the sum of the Bank's credit risk capital requirement and market risk capital requirement. The Bank may request approval from the Finance Board at some future date to use an alternative methodology for calculating operations risk capital, but has not done so at this time.

The following table sets forth as of December 31, 2002 the Bank's pro forma risk-based capital. The pro forma information assumes that the Conversion Date had occurred on December 31, 2002.

(\$ in thousands)	<b><u>Pro Forma</u></b>
Credit Risk Capital .....	\$ 138,720
Market Risk Capital.....	86,326
Operations Risk Capital.....	<u>67,514</u>
<b>Risk-based Capital Requirement .....</b>	<b>292,560</b>
<b>Permanent Capital .....</b>	<b>1,619,725</b>

The three tables set forth above indicate that on a pro forma basis as of December 31, 2002, the Bank would have met or exceeded its minimum regulatory capital requirements. The Bank anticipates that upon implementation of the Capital Plan on the Conversion Date, the Bank will meet or exceed all three of its minimum regulatory capital requirements.

In addition, as described under “Material Assumptions” below, the pro forma information shows that the Bank would need to liquidate approximately \$4.2 billion of investments to: (1) repurchase \$341 million of Excess Stock; (2) meet the minimum regulatory capital requirement; and (3) meet the Bank’s target operating ratios. If, at July 1, 2003 (the Conversion Date) the Bank’s actual calculation of its required amount of Capital Stock shows similar results, management anticipates that the Bank will liquidate money market investments and other securities to be able to repurchase the Excess Stock and meet its minimum regulatory capital requirements and/or target operating ratios, as applicable. After July 1, 2003, the Bank may determine to adjust the Membership Stock Requirement or Activity Based Stock Requirement to meet its target capital ratios. See “Description of Capital Plan – Minimum Investment” for more information.

### **Material Assumptions**

The pro forma capitalization, capital ratio, leverage capital ratio and permanent capital information set forth above are calculated based upon the Minimum Investment for each individual Member:

- The Minimum Investment requirements were calculated using 0.12% of each Member’s Total Assets as of December 31, 2002 plus 4.45% of all outstanding advances as of December 31, 2002, the actual capital requirements specified in contracts for mortgage loans acquired under the Mortgage Partnership Finance<sup>®</sup> Program (MPF<sup>®</sup>)<sup>2</sup> held by the Bank as of December 31, 2002 and 0.15% of outstanding standby letters of credit of each Member as of December 31, 2002. Based on the Minimum Investment requirements, certain Members would have purchased additional Capital Stock totaling \$52 million.
- A Member may request that the Bank repurchase some or all of its Excess Stock as of the Conversion Date. The pro forma total capital was adjusted based on the Bank’s assumption that all Excess Stock was repurchased for cash. This calculation would have resulted in approximately \$341 million of Excess Stock being repurchased from Members as of December 31, 2002.
- A Member may elect to opt-out of the Capital Plan conversion and have its capital stock repurchased at the Conversion Date. The pro forma capital stock analysis assumes that no Members opt-out of the Capital Plan conversion.
- The Bank’s total assets on a pro forma basis reflect an assumed reduction of approximately \$4.2 billion in liquid money market and other investments to repurchase Excess Stock, to meet the Bank’s minimum regulatory capital requirements and to meet target operating ratios.
- The Bank’s target range of total capital and permanent capital to total assets will be 4% to 5% when the Capital Plan is implemented.

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<sup>2</sup> “Mortgage Partnership Finance” and “MPF” are registered trademarks of the FHLBank of Chicago.

## 7 Business of the Bank

### General

The Bank is a member of the FHLBank system (“FHLBank System”) which was created by Congress in 1932 pursuant to the Bank Act. The purpose of the FHLBank System is to increase the supply of funds to local lenders that, in turn, finance loans for home mortgages, small businesses, agriculture and farms, and otherwise help finance the country’s housing and community development needs. Commercial banks, savings banks, savings and loan associations, credit unions and insurance companies that meet certain requirements are eligible for membership in the FHLBank System for the district in which such institutions are located. There currently are 12 FHLBank districts in the United States. The Bank’s district is comprised of the states of Iowa, Minnesota, Missouri, North Dakota and South Dakota. At December 31, 2002, the Bank had 1,233 members.

The FHLBanks borrow funds to support their operations principally through the sale of debt securities, known as consolidated obligations, to the public through the Office of Finance. The Office of Finance is a joint office of all of the FHLBanks and has the responsibility for facilitating and executing the issuance of consolidated obligations. Each FHLBank is jointly and severally liable with the other FHLBanks for the consolidated obligations issued through the Office of Finance. Consolidated obligations are not obligations of the United States, and the United States does not guarantee them.

The Bank’s principal place of business is located at 907 Walnut Street, Des Moines, Iowa 50309. The Bank had 170 full- and part-time employees as of December 31, 2002.

### Products and Services

The following provides a general description of the Bank’s current products and services. The Bank has two reportable operating segments: Traditional Member Finance and Mortgage Finance. For more information about our segments, see “Management’s Discussion and Analysis” and the Bank’s audited financial statements and related notes included in the 2002 Annual Report, which is incorporated by reference in this Information Statement. The Bank makes no representation that it will continue to offer any or all of the described products and services in the future or that the terms on which the Bank offers such products or services will remain as described in this Information Statement.

*Advances and Standby Letters of Credit.* Providing advances to Members is the Bank’s core business. The Bank offers a wide range of credit products to help Members maintain adequate liquidity, meet local credit needs, manage interest rate risk, serve their communities and enhance profits. The Bank’s primary business is making secured advances to its Members. The Bank also issues letters of credit on behalf of its Members. All Members can pledge as collateral for their advances and letters of credit: one-to-four family and multifamily mortgage loans; privately issued mortgage-backed securities (“MBS”); U.S. Treasury and agency securities; cash; and deposits. In addition, those Members with accounts insured by the Federal Deposit Insurance Corporation and average total assets over the preceding three year period under \$538 million<sup>3</sup>

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<sup>3</sup> Finance Board adjusts the level annually based on changes in the Consumer Price Index.

may use small-business and small-farm loans as collateral. Products available include short-term and long-term variable- and fixed-rate advances, including option-embedded advances and amortizing advances, and standby letters of credit. As of December 31, 2002, the Bank had \$24.0 billion of advances outstanding and standby letters of credit outstanding totaling \$910 million.

*Acquired Member Asset Programs.* In November 1999, the Bank began buying one-to-four family mortgage loans, with terms up to 30 years, from our Members through the MPF Program. This program provides members an attractive economic alternative to holding mortgage loans in their portfolio or selling them in the secondary market. Under the terms of the MPF Program, the Bank manages the liquidity, interest-rate and prepayment risk of the mortgage loans while the Members retain all loan and customer servicing activities. The Bank and the Members share in the credit risk of the loans. As of December 31, 2002, the Bank had \$5.7 billion of mortgage loans outstanding.

*Correspondent Bank Services.* The Bank offers its Members a variety of correspondent bank services, including overnight and term deposits, depository services, funds transfers, settlements and safekeeping services. Depository services include overnight and term deposits and processing of Member transactions in the deposit accounts each Member has with the Bank. All member-related transactions such as Federal Reserve Bank settlements, advances, securities transactions and wires are posted to these accounts each business day, and the resulting balances are an integral part of each Member's cash positions. Funds transfer services include domestic and foreign wire transfers as well as settlement of automated clearing house transactions. The Bank offers a variety of securities custodial services including safekeeping and settlement of book entry and physical items, principal and interest payments, pledging of securities and notification of calls and maturities.

The Bank also currently offers other services, such as official check, savings bond submission, item processing and collections. The Bank has notified its Members of a schedule to eliminate these services during 2003 due to lack of usage, profitability and failure to align with the Bank's core mission.

*Community Investment Programs.* We are required by the FHLBank Act to establish and fund an Affordable Housing Program ("AHP") to provide direct grants and below-market interest rate advances to Members who use the funds to assist in the purchase, construction or rehabilitation of housing for qualifying households. In order to fund the AHP, the FHLBanks as a group must set aside the greater of \$100 million or 10% of current year income before AHP charges, but after the assessment for the Resolution Funding Corporation ("REFCORP") described below. If the result of the aggregate 10% calculation described above is less than \$100 million for all 12 FHLBanks, then the FHLBank Act requires that the shortfall be allocated among the FHLBanks based on the ratio of each FHLBank's income before AHP and REFCORP to the sum of the income before AHP and REFCORP of the 12 FHLBanks. There was no shortfall in 2002, 2001 or 2000. Our AHP expense was \$6.3 million in 2002, \$9.1 million in 2001 and \$13.8 million in 2000.

In addition to the AHP, the Bank offers a Community Investment Advance (“CIA”) Program. The CIA program is a below-market advance program created to assist in the funding of both community development and affordable housing projects.

### **Resolution Funding Corporation Obligation**

We also pay 20% of net earnings after the AHP obligation to REFCORP to support the payment for part of the interest on the bonds issued by REFCORP. The FHLBanks’ obligation to REFCORP is total payments equivalent to a \$300 million annual annuity with a final maturity date of April 15, 2030. The Finance Board in consultation with the Secretary of the Treasury will select the appropriate discounting factors used in this calculation. The Finance Board will shorten or lengthen the period during which the FHLBanks must make payments to REFCORP depending on actual payments relative to the referenced annuity. The cumulative amount we must pay to REFCORP is not immediately determinable due to the interrelationships of all future FHLBanks’ earnings. The FHLBanks made REFCORP payments of \$452 million, \$537 million and \$553 million for the years ended 2002, 2001 and 2000. The FHLBanks’ payments for 2002 defease all future benchmark payments after the fourth quarter of 2021 and \$71 million of the \$75 million benchmark payment for the fourth quarter of 2021.

## **8 Funding Sources**

### **General**

The principal funding source for the Bank is consolidated obligations, which consist of consolidated bonds and consolidated discount notes, issued to the public through the Office of Finance. Deposits of Members and the proceeds from the issuance of capital stock are also funding sources of the Bank. Generally, consolidated discount notes have maturities up to 360 days, and consolidated bonds have maturities of one year or longer. The Bank determines its participation in each issuance of consolidated obligations based on, among other things, its own funding and operating requirements and the amounts, maturities, rates of interest and other terms of each issuance available in the marketplace. The terms of the issuance of consolidated obligations are established by the Office of Finance and are subject to approval by the Secretary of the Treasury. The Bank Act also authorizes the Secretary of the Treasury to purchase consolidated obligations up to an aggregate principal amount of \$4 billion.

Consolidated bonds satisfy term funding requirements. Typically, the maturity of these bonds ranges from one year to twenty years, but their maturity is not subject to any statutory or regulatory limit. Consolidated bonds can be issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members. Consolidated discount notes are a significant funding source for assets with short-term maturities or repricing frequencies. These securities are offered daily through a consolidated discount note selling group. Discount notes are sold at a discount and mature at par.

As of December 31, 2002, the Bank had \$37.3 billion of consolidated obligations outstanding, \$29.6 billion of which were consolidated bonds and \$7.7 billion of which were discount notes. It has been the Bank's practice to combine consolidated obligations with derivative transactions to lower the all-in effective cost of funds and reduce interest rate risk. The Bank's funding strategy of issuing bonds while simultaneously entering into swap transactions, a combination typically referred to as structured debt, enables the Bank to offer a wider range of attractively priced advance products to its Members.

Factors that generally influence deposit levels include turnover in Members' portfolios, change in Member liquidity, the slope of the market yield curve and the Bank's deposit pricing as compared to other shorter-term market rates. When Member deposit balances decline, funding is typically replaced through the issuance of consolidated obligations.

### **Strategy with Respect to Interest-Rate Exchange Agreements**

The Bank enters into interest-rate exchange agreements (interest rate swaps, caps, floors and swaption agreements) for the purposes of managing interest rate risk and creating attractively priced funds to support advances to Members. Interest-rate exchange agreements are also used to create advances with specialized embedded pricing features to reduce Member borrowing costs. The Bank also uses interest-rate exchange agreements in our overall interest-rate risk management to adjust the interest-rate sensitivity of consolidated obligations to approximate more closely the interest-rate sensitivity of assets, and/or to adjust the interest-rate sensitivity of assets to approximate more closely the interest-rate sensitivity of liabilities. In addition, we use interest-rate exchange agreements to manage embedded options in assets and liabilities, to hedge the prepayment risk of prepayable instruments and to reduce funding costs.

Under Statement of Financial Accounting Standards 133 ("SFAS 133"), effective January 1, 2001, the Bank is required to carry derivative instruments on its statements of condition at fair value. Any change in the fair value of a derivative is required to be reflected in current period earnings or other comprehensive income, regardless of how fair-value changes in the assets or liabilities being hedged may be treated. The Bank's general practice has been to utilize derivatives when doing so appears to provide a more cost-effective means of managing the risks inherent in its underlying business.

It is the Bank's policy to use derivative instruments only to reduce the market risk exposures inherent in the otherwise unhedged asset and funding positions of the Bank. Management intends to continue utilizing derivative instruments as a means to reduce the Bank's exposure to changes in market interest rates when doing so represents what Bank management believes to be a more cost-efficient strategy. As such, the central focus of the financial management practices of the Bank is preserving and enhancing the long-term economic performance of the Bank. Under SFAS 133, however, it is expected that reported GAAP net income will exhibit greater variability than had been reported prior to implementation of the new accounting standard. You should read the "Management's Discussion and Analysis" and "Risk Management" sections of the Bank's 2002 Annual Report which is incorporated by reference in this Information Statement for more information about the Bank's use and management of derivatives.

## **Joint and Several Liability for Consolidated Obligations**

Although the Bank is primarily liable for its portion of consolidated obligations (those issued on its behalf), the Bank is also jointly and severally liable with the other FHLBanks for the payment of principal and interest on consolidated obligations of all the FHLBanks. If the principal or interest on any consolidated obligation is not paid in full when due, the Finance Board may direct the Bank not to pay dividends to, or redeem or repurchase shares of stock from, any Member of the Bank. The Finance Board, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation.

To the extent that the Bank makes any payment on a consolidated obligation on behalf of another FHLBank, the Bank shall be entitled to reimbursement from the non-complying FHLBank. However, if the Finance Board determines that the assets of the non-complying FHLBank are insufficient to satisfy its direct obligation, then the Finance Board may allocate the outstanding liability among the remaining FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding, or on any other basis the Finance Board may determine. To date, the Bank has not been required to make any payment on a consolidated obligation resulting from its joint and several liability for consolidated obligations not issued on its behalf.

## **Negative Pledge Requirements**

The Bank must maintain certain assets free from any lien or pledge in an amount at least equal to (1) its pro rata share of the total amount of currently outstanding consolidated obligations and (2) its participation in such outstanding consolidated obligations. Eligible assets for this purpose include: (1) cash; (2) secured advances; (3) assets with an assessment or rating at least equivalent to the current assessment or rating of the consolidated obligations; (4) obligations, participations, mortgages or other securities issued by the United States or an agency of the United States; and (5) such securities as fiduciary or trust funds may invest under the laws of the state in which the FHLBank is located.

## **Office of Finance**

The Office of Finance is a joint office of the twelve FHLBanks which issues consolidated obligations, as agent, on behalf of all FHLBanks. The Office of Finance also services all outstanding debt, provides the FHLBanks with credit rating information, serves as a source of information for the FHLBanks on capital market developments, manages the FHLBanks' relationship with rating agencies and prepares and distributes the combined annual and quarterly financial reports for the FHLBank System.

The Office of Finance is managed by a board of directors which consists of three part-time members appointed by the Finance Board. Under current Finance Board regulations, two of these members shall be Presidents of FHLBanks and the third shall be a private citizen of the United States with a demonstrated expertise in financial markets. The private citizen member of the board serves as its chairperson. The Finance Board has regulatory oversight and enforcement authority over the Office of Finance and its directors and officers. The FHLBanks are responsible for jointly funding the expenses of the Office of Finance. One of the responsibilities of the Office of Finance's board of directors is to establish policies regarding consolidated

obligations to ensure that, among other things, such obligations are issued efficiently and at the lowest all-in funding costs over time consistent with prudent risk management practices and other market and regulatory parameters.

The Finance Board recently amended its regulations governing the issuance of consolidated obligations. Through December 31, 2000, consolidated obligations were issued by the Finance Board through the Office of Finance under the authority of Section 11(c) of the Bank Act. The Bank Act provides that debt issued under Section 11(c) is the joint and several obligation of all FHLBanks. The amended regulation authorizes the FHLBanks to issue consolidated obligations through the Office of Finance under the authority of Section 11(a) of the Bank Act. While the Bank Act does not impose joint and several liability on all FHLBanks for debt issued under Section 11(a), the Finance Board determined in the amended regulation that the same rules governing joint and several liability should apply whether consolidated obligations are issued by the Finance Board under Section 11(c) or by the FHLBanks under Section 11(a). Since January 2, 2001, the FHLBanks have issued consolidated obligations in their own name through the Office of Finance under Section 11(a) of the Bank Act. No FHLBank is permitted to issue individual debt under Section 11(a) of the Bank Act without Finance Board approval.

## **9 Management's Discussion and Analysis**

See the "Management's Discussion and Analysis" section appearing in the Bank's 2002 Annual Report which is incorporated by reference in this Information Statement.

## **10 Capital Requirements**

### **Pre-GLB Act**

Prior to the enactment of the GLB Act in 1999, the Bank Act provided for a subscription capital structure. Under that structure, which remains in effect until the effective date of the Bank's Capital Plan, a single class of capital stock is issued to Members pursuant to a statutory formula. In accordance with that formula, each Member is required to purchase stock in an amount equal to the greater of (1) \$500; (2) 1% of the outstanding mortgage loan principal on a Member's balance sheet; or (3) 5% of its outstanding advances. In addition to the stock that Members are required to hold pursuant to the terms of the Bank Act, the Bank currently requires Members that sell mortgage loans to it through the MPF Program to purchase stock equal to at least 4% of the loans purchased and held by the Bank. The stock is redeemable by Members following withdrawal or termination of membership. Members may withdraw from membership by providing six months prior written notice to the Finance Board. Following withdrawal or termination of membership, the Bank shall determine an orderly manner for liquidating all outstanding indebtedness owed by that member to the Bank and for settling all other claims against the member. After all such obligations and claims have been extinguished or settled, the Bank shall pay the Member the par value for its stock.

The pre-GLB Act version of the Bank Act did not prescribe specific capital requirements for the Bank. However, the Finance Board, by regulation, has required that the Bank comply with a leverage limit based on a ratio of the Bank's assets to its capital. This requirement generally provides that the Bank's total assets may not exceed 21 times the total of its paid-in capital stock, retained earnings and reserves. If the Bank's non-mortgage assets, after deducting deposits and

capital, do not exceed 11% of its total assets, it is permitted to operate under a higher leverage limit such that its total assets may be up to 25 times its paid-in capital stock, retained earnings and reserves.

As of December 31, 2002, due to the fact that the Bank's non-mortgage assets were less than 11% of its total assets, the Bank was in compliance with this leverage limit as its total assets were approximately 22 times its paid-in capital stock, retained earnings and reserves. This leverage limit will cease to apply to the Bank on the Conversion Date and the new GLB Act capital requirements shall apply to the Bank, provided that the Bank is, as of that date, in compliance with its minimum regulatory capital requirements (as defined below).

### **The GLB Act**

*General.* The GLB Act amended the Bank Act and created statutory capital requirements for all FHLBanks. Under the GLB Act, the Bank must satisfy two leverage-related capital requirements and a risk-based capital requirement. The Finance Board has issued regulations to apply uniform capital standards to all FHLBanks and to effectuate the new capital requirements. These new capital requirements, including any capital requirements imposed on an individual FHLBank on a case-by-case basis by the Finance Board, are referred to herein as the "minimum regulatory capital requirements" of the Bank.

The GLB Act also provided for a more flexible and permanent capital structure for the Bank by requiring the Bank to develop and implement a capital plan that, among other things, would replace the current single-class Bank capital stock with a new capital structure comprised of either Class A Stock, Class B Stock or a combination of both. Class A Stock is redeemable by Members upon six months prior written notice to the Bank. Class B Stock is redeemable by Members upon five years prior written notice to the Bank. Both classes of stock may be issued, redeemed, repurchased and transferred only at their par value.

Under the GLB Act, the requirements regarding the purchase and retention of capital stock by a Member of the Bank that were in effect on the day before the enactment of the GLB Act will remain in effect until the Bank implements a capital plan that has been approved by the Finance Board.

*Leverage-Related Capital Requirements.* The Bank must maintain total capital of at least 4% of the Bank's total assets, as determined in accordance with GAAP. Total capital is defined as a Bank's permanent capital, plus the amount paid-in by the members for Class A Stock, any general allowance for losses, and the amount of any other instruments identified in the Bank's capital plan that the Finance Board has determined are available to absorb losses incurred by the Bank. Permanent capital is defined as the retained earnings of the Bank determined in accordance with GAAP, plus the amount paid-in for the Bank's Class B Stock. For reasons of safety and soundness, the Finance Board may require an individual FHLBank to maintain total capital in an amount greater than 4% of the FHLBank's total assets.

The Bank must also maintain a leverage capital ratio of total capital to total assets of at least 5%. For purposes of determining this ratio, total capital is computed by multiplying the Bank's permanent capital by 1.5 and adding to this product all other components of total capital. See "Capitalization" for more information regarding the Bank's compliance with these requirements.

*Risk-Based Capital Requirement.* Under the risk-based capital requirement, the Bank must maintain permanent capital equal to the sum of its (1) credit risk capital requirement; (2) market risk capital requirement; and (3) operations risk capital requirement.

The Bank's credit risk capital requirement is determined by adding together the credit risk capital charges computed for assets, off-balance sheet items and derivative contracts. These charges are determined by using the methodology and risk weights assigned each classification as prescribed in Finance Board regulations.

The Bank's market risk capital requirement is determined by adding together the market value of the Bank's portfolio at risk from movements in interest rates, foreign exchange rates, commodity prices and equity prices that could occur during times of market stress and the amount, if any, by which the Bank's current market value of total capital is less than 85% of the Bank's book value of total capital. The Bank shall calculate the market value of its portfolio at risk and the current market value of its total capital by using either an internal market risk model or internal cash flow model approved by the Finance Board. The Bank's internal market risk model was approved by the Finance Board on March 19, 2003.

The Bank's operations risk capital requirement is equal to 30% of the sum of its credit risk capital requirement and its market risk capital requirement, subject to a reduction with Finance Board approval to no less than 10% of the sum of its credit risk capital requirement and its market risk capital requirement. The Bank has not requested such a reduction from the Finance Board.

For reasons of safety and soundness, the Finance Board may require an individual FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirement. See "Capitalization" for more information regarding the Bank's compliance with these requirements.

### **Comparison of Terms of Existing Stock and Capital Stock**

<b>Issue</b>	<b>Existing Stock</b>	<b>Capital Stock</b>
<b>Par Value</b>	\$100 per share.	Same as existing stock.
<b>Ownership of Retained Earnings</b>	Congress has previously required the Bank to contribute its retained earnings to the Financing Corporation and the Resolution Funding Corporation, which has suggested that the Members have no rights in the retained earnings of the Bank.	Holder of Capital Stock own the retained earnings, and are entitled to their share of the retained earnings upon the liquidation of the Bank in an amount proportional to the holder's share of the total shares of Capital Stock.

<b>Issue</b>	<b>Existing Stock</b>	<b>Capital Stock</b>
<b>Voting Rights for Election of Directors</b>	Members are only entitled to vote for election of directors. Voting rights are based on one vote for each share required to be held on the applicable record date up to the state average.	Same as existing stock.
<b>Dividend Policy</b>	To produce an earned dividend that, when combined with the other benefits of membership, compensates Members for their capital investment.	Same as existing stock.
<b>Minimum Investment</b>	The greater of: (1) \$500, (2) 1% of the outstanding mortgage loan principal on a Member's balance sheet, or (3) 5% of advances from the Bank.	<p>On the Conversion Date:</p> <p>(1) Membership Stock equal to 0.12% of the Member's Total Assets as of December 31, 2002, subject to a Membership Stock floor of \$10,000 and a Membership Stock cap of \$10,000,000 <u>plus</u></p> <p>(2) Activity Based Stock equal to:</p> <p>(a) 4.45% of the Member's outstanding advances, <u>plus</u></p> <p>(b) the Member's capital requirement percentage for any Acquired Member Assets outstanding as specified in contracts in effect at the time the assets were purchased <u>plus</u></p> <p>(c) 0.15% of the Member's outstanding standby letters of credit.</p>

<b>Issue</b>	<b>Existing Stock</b>	<b>Capital Stock</b>
<b>Redemption</b>	The Member has no right to have its stock redeemed until it withdraws from membership, which requires six months' prior written notice. However, as a matter of practice, the Bank has honored Member requests for redemption of a Member's excess stock by repurchasing such stock when it suited the capitalization needs of the Bank.	The Member has the right to have its Capital Stock redeemed upon five years' prior written notice unless one of the specified limitations applies. The Member does not have to withdraw from Membership in order to redeem its Excess Stock.
<b>Repurchase</b>	The Bank has repurchased the excess stock of individual Members when it suited the capitalization needs of the Bank.	The Bank may repurchase Excess Membership Stock with fifteen days prior notice to the Member and shall repurchase Excess Activity Based Stock on a scheduled monthly basis, subject to an operational threshold.
<b>Transfer of Stock</b>	Under current Finance Board regulations, transfers of stock can occur in connection with a Member's merger or consolidation with another institution. A Member may transfer stock only to another Member or to an institution, with the approval of the Finance Board, that has been approved for membership and that has satisfied all conditions for becoming a Member other than the purchase of Bank stock. Any transfer shall be at par value and shall be recorded on the books of the Bank.	With the prior approval of the Bank, a Member may transfer its Excess Stock to another Member that controls, is controlled by, or is under common control with the Member. Any transfer shall be at par value and shall be recorded on the books of the Bank. Transfers are not limited to mergers and consolidations.
<b>Rights upon the Liquidation of the Bank</b>	The Bank Act and Finance Board regulations are silent on this issue.	Holders of Capital Stock own the retained earnings, and are entitled to their share of the retained earnings upon the liquidation of the Bank in an amount proportional to the holder's share of the total shares of Capital Stock.

Issue	Existing Stock	Capital Stock
<b>Call for Additional Capital</b>	The Bank Act and Finance Board regulations are silent on this issue.	The Bank has the right to increase the required Minimum Investment requirements. Members are required to comply promptly with any increase in the required minimum stock investment requirements.

**11 Description of Capital Plan**

**Background**

The GLB Act and Finance Board regulations require each FHLBank to adopt a capital plan that, when implemented, would provide it with sufficient capital to meet its minimum regulatory capital requirements. Each capital plan must include, among other things, provisions relating to the Minimum Investment required of each Member; the classes of stock to be offered by the Bank (Class A, Class B or both); the rights, terms, and preferences associated with each class of stock; the criteria for the redemption, repurchase and transfer of FHLBank stock; and the disposition of FHLBank stock held by institutions that withdraw from membership.

The new capital structure does not become effective with respect to each FHLBank until the effective date of its capital plan, which is the date on which the existing capital stock of the FHLBank is converted into shares of Class A and/or Class B Stock. Until the effective date, each FHLBank and its Members remain subject to the capital stock related provisions of the Bank Act and Finance Board regulations that were in effect on the day prior to the enactment of the GLB Act.

**Development of the Bank’s Capital Plan**

Bank management analyzed various possible capital structures that would meet the new standards and the needs of its Members. Management focused on developing a plan that was simple to understand and operate and was consistent with our existing stock requirement. In the third quarter of 2000, the Bank held ten regional meetings with Members to discuss the key concepts of the GLB Act, the proposed regulations issued by the Finance Board and the Bank’s initial approach to the new capital structure. Approximately 65% of the Bank’s Members attended one or more of those regional meetings. The Members that participated in the meetings were given the opportunity to ask questions and provide feedback on the Bank’s initial approach to the new capital structure.

In March 2001, Bank management developed a proposed Capital Plan and presented it to the Board’s Bank Operations Committee for review and discussion. A joint meeting of the Bank Operations Committee and the Audit Committee was held in April 2001 to discuss a revised proposal. Based on the Committees’ recommendations, modifications were made to the proposed Capital Plan.

During the summer of 2001, the Bank conducted an extensive Member outreach program on the proposed Capital Plan. Packets of informational material were distributed to all Members and a sample survey of more than 500 Members was conducted by the Bank. After reviewing membership concerns, additional modifications were made to the proposed Capital Plan.

The Board of Directors approved the Capital Plan in August 2001 and subsequently approved modifications to the Capital Plan that addressed comments from third-party reviewers, such as PricewaterhouseCoopers and Standard and Poor's, and preliminary Finance Board review. The Bank submitted the Capital Plan to the Finance Board for its approval in October 2001. Finance Board staff reviewed the Capital Plan in the spring of 2002. After making some revisions to the original Capital Plan in response to comments from the Finance Board, the Board of Directors approved the final version of the Capital Plan on July 8, 2002. On July 10, 2002, the Finance Board approved the Bank's Capital Plan.

### **Opt-Out Process**

Under the Capital Plan, a Member that does not wish to continue its membership under the new Capital Plan must file a Notice of Withdrawal with the Finance Board at 1777 F Street, N.W., Washington, D.C. 20006, with a copy to the Bank, at 907 Walnut Street, Des Moines, IA 50309, Attention: Corporate Secretary, on or before May 30, 2003, the Opt-out Date. The membership of a Member that has filed its Notice of Withdrawal with the Finance Board and the Bank on or before the Opt-out Date shall terminate on the Conversion Date. A Member that has properly filed its Notice of Withdrawal with the Finance Board and the Bank prior to the Opt-out Date will not be subject to the Membership Stock Requirement on the Conversion Date. On the Conversion Date, the Bank will determine an orderly manner for liquidating all outstanding indebtedness, including prepayment fees owed by the Member to the Bank and settling all other claims against the Member. If a Member that withdraws from Membership on the Conversion Date has any advance or other transaction for which it remains obligated to the Bank following the Conversion Date, the Member will be subject to the Activity Based Stock Requirement so long as such advance or other transaction remains recorded on the Bank's books and records. The Activity Based Stock Requirement for a Member that has submitted a Notice of Withdrawal on or before the Opt-out Date will be the lesser of the requirement in effect prior to the Conversion Date or the requirement under the Capital Plan. The Bank will redeem and retire each share of existing stock held by the Member that is not necessary to meet its Activity Based Stock requirement on the date the membership terminates, provided that, after such redemption, the Bank remains in full compliance with all provisions of Finance Board regulations dealing with limitations on redemptions and repurchases. See "Description of Capital Plan - Limitations on Redemption or Repurchase."

If a Member files a Notice of Withdrawal after the Opt-out Date but before the Conversion Date, the Member's capital stock will be converted to Capital Stock on the Conversion Date in accordance with the Capital Plan. The effective date of the Member's withdrawal shall be five years from the receipt of the Notice of Withdrawal and the five-year redemption period shall commence on receipt of the Notice of Withdrawal.

## **Process for Repurchase of Excess Stock on Conversion Date**

In accordance with the Capital Plan, a Member may ask the Bank to repurchase some or all of any Excess Stock held by the Member on the Conversion Date. If the Bank receives such notice from a Member on or before June 16, 2003, the Bank will repurchase the amount of Excess Stock requested to be repurchased as of the Conversion Date and will debit the Member's Membership Stock balance and credit the Member's demand deposit account with the proceeds. If the Bank does not receive such notice from a Member on or before June 16, 2003, any Excess Stock held by the Member on the Conversion Date will be converted into Excess Shares of Membership Stock. Excess Shares of Membership Stock can not be used to meet a Member's Activity Based Stock Requirement.

## **Conversion Process and Effective Date**

The Conversion Date of the Capital Plan is July 1, 2003. At the opening of business on July 1, 2003, the Bank will calculate a Member's Minimum Investment as the sum of the Membership Stock Requirement, which is based on the Member's Total Assets as of December 31, 2002, and the Activity Based Stock Requirement, which is based on the Member's outstanding advances and other transactions at the opening of business on July 1, 2003.

The Bank shall convert a Member's existing stock into an identical number of shares of Capital Stock by:

- (1) Crediting a Member's Membership Stock balance with the lesser of the total number of shares converted or the number of shares required to meet the Member's Membership Stock Requirement;
- (2) Crediting a Member's Activity Based Stock balance with the lesser of the remaining number of shares converted or the number of shares required to meet the Member's Activity Based Stock Requirement; and
- (3) Crediting any remaining existing stock to a Member's Membership Stock balance unless the Member has elected to have the Bank repurchase any remaining existing shares on the Conversion Date.

If, after the conversion, a Member does not own sufficient Capital Stock to satisfy its Minimum Investment, then the Bank will issue Capital Stock sufficient to eliminate the shortfall and credit the Member's Capital Stock accounts with the number and subclass of shares necessary to meet its Minimum Investment. The cost of the shares issued will be debited from the Member's demand deposit account with the Bank on July 1, 2003.

The Bank will advise the Member of its Minimum Investment, its Membership Stock balance, its Activity Based Stock balance and the amount of funds either debited or credited to the Member's demand deposit account. All Members must comply with the terms of the Capital Plan on the Conversion Date.

## **Minimum Investment**

*General.* The Capital Plan is designed to provide the Bank with sufficient capital to meet its minimum regulatory capital requirements. Toward this end, the Capital Plan requires that Members hold and maintain a Minimum Investment in Capital Stock rounded up to the next \$100. The Minimum Investment is based on the sum of the Membership Stock Requirement and the Activity Based Stock Requirement, as those terms are defined in the Capital Plan and generally explained below.

The Board of Directors has a continuing obligation to review and adjust the Minimum Investment as necessary to ensure that the Bank remains in compliance with its capital requirements. The Board of Directors has the authority to periodically adjust percentages within the specified ranges established in the Capital Plan and to amend the minimum and maximum investment ranges for each subclass of Capital Stock. Any amendment to the ranges constitutes an amendment to the Capital Plan and requires prior approval by the Finance Board. With respect to Activity Based Stock, the Board of Directors may choose to apply changes either prospectively to new advances and other transactions, or prospectively and retrospectively to new and existing advances and other transactions.

The Bank will provide notice to each Member of any adjustment or amendment at least 15 days prior to the effective date of any such adjustment. Upon the effective date of any such adjustment or amendment, the Bank will, as applicable, issue or repurchase any Capital Stock in accordance with the Capital Plan.

Each Member must comply promptly with any adjustments to the Minimum Investment, including any adjustments made by the Board of Directors that may lead to an increase in a Member's Minimum Investment. In order to effectuate the issuance of Capital Stock, the Bank is authorized to issue Capital Stock in the name of a Member and to withdraw appropriate payment from the Member's demand deposit account with the Bank.

*Membership Stock Requirement.* Upon conversion, each Member will be required to hold Membership Stock based upon its Total Assets as of December 31, 2002 multiplied by 0.12%, subject to a Membership Stock floor of \$10,000 and a Membership Stock cap of \$10,000,000.

At least annually thereafter, the Bank will calculate each Member's Membership Stock Requirement as a percentage of its Total Assets as of the preceding December 31<sup>st</sup>. The Bank will notify each Member of its Membership Stock Requirement at least 15 days prior to the effective date of any adjustment that the Bank makes to the Member's Membership Stock balance as a result of such annual calculation. While the Bank will recalculate each Member's Membership Stock Requirement on at least an annual basis, the Bank may recalculate any Member's Membership Stock Requirement more often than annually if the Bank deems appropriate. A Member may also request a recalculation of its Membership Stock Requirement. In each of these cases, the Bank will recalculate the Membership Stock Requirement based upon the Member's Total Assets as of the end of the most recent calendar quarter for which financial information is available.

The Capital Plan authorizes the Board of Directors to make adjustments to the Membership Stock Requirement percentage. From time to time, the Board of Directors may adjust the Membership Stock Requirement percentage within a range of 0.10% to 0.25%. The Capital Plan also authorizes the Board of Directors to adjust the Membership Stock floor within a range of \$10,000 to \$30,000 and the Membership Stock cap within a range of \$10,000,000 to \$30,000,000. The Board of Directors may also amend the ranges for the Membership Stock Requirement and the Membership Stock floor and the Membership Stock cap; however, amendments to these ranges constitute an amendment to the Capital Plan that would require prior Finance Board approval. The Bank will provide Members with at least 15 days notice prior to the effective date of any adjustment or amendment to the Minimum Investment requirements applicable to Membership Stock.

*Activity Based Stock Requirement.* The Bank will calculate each Member's Activity Based Stock Requirement on a daily basis. The Bank will notify each Member of any change in its Activity Based Stock Requirement and, if required, issue additional Activity Based Stock to the Member. Each Member is required to purchase and hold Activity Based Stock in an amount equal to the Activity Based Stock Requirement. The Activity Based Stock Requirement is initially set at 4.45% of each Member's outstanding principal balance of advances, 4.45% of each Member's outstanding Acquired Member Assets<sup>4</sup> and 0.15% of each Member's outstanding standby letters of credit. Initially, no Activity Based Stock percentage has been set for Commitments for advances or Acquired Member Assets.

The Capital Plan authorizes the Board of Directors to make adjustments to the Activity Based Stock Requirement percentages. From time to time, the Board of Directors may adjust the Activity Based Stock Requirement within a range of 3.00% to 5.00% for outstanding advances and Acquired Member Assets, a range of 0.00% to 0.175% for outstanding standby letters of credit, a range of 0.00% to 0.35% for advance Commitments and a range of 0.00% to 0.60% for Acquired Member Asset Commitments. The Board of Directors may choose to apply adjustments in the Activity Based Stock Requirement either prospectively to new advances and other transactions, or prospectively and retrospectively to new and existing advances and other transactions. The Board of Directors may also amend these ranges; however, amendments to these ranges constitute an amendment to the Capital Plan that would require prior Finance Board approval. The Bank will provide Members with at least 15 days notice prior to the effective date of any adjustment or amendment to the Minimum Investment applicable to Activity Based Stock.

### **Excess Stock**

A Member may hold Capital Stock in excess of its Minimum Investment to the extent it has the legal authority under applicable statutes and regulations to do so. The Bank will not permit a Member to convert any Excess Shares of Capital Stock between subclasses of Capital Stock.

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<sup>4</sup> Any Acquired Member Asset such as mortgage loans acquired under the Mortgage Partnership Finance program held by the Bank on the Conversion Date will be subject to capital requirements specified in contracts in effect at the time the assets were purchased.

## **Redemption**

A Member may, at its discretion, request redemption of some or all of its Capital Stock that constitutes Excess Stock by providing a Notice of Redemption signed by an officer of the Member specifying the subclass and number of shares of Capital Stock to be redeemed to the Bank at 907 Walnut Street, Des Moines, IA 50309, Attention: Corporate Secretary. The Bank will also repurchase Excess Shares of Activity Based Stock on a scheduled monthly basis. See “Repurchase.” A Member may not have pending at any one time more than one redemption request for the same share of Capital Stock. The five-year redemption period commences upon the Bank’s receipt of the Notice of Redemption. In the event that multiple Notices of Redemption are pending, the Bank will honor Notices of Redemption in the order in which the Bank receives them. The Bank shall redeem the Capital Stock identified in a Notice of Redemption following the expiration of the five-year redemption period and pay the stated par value of that Capital Stock in cash. The effect of redeeming Capital Stock by the Bank is to retire such shares. The Bank is not permitted to redeem Capital Stock if such redemption would result in any of the events described under “Description of Capital Plan - Limitations on Redemption or Repurchase,” including if such redemption would cause the Member to fail to meet its Minimum Investment. The Bank, in its discretion, may repurchase Excess Stock without regard to any redemption period.

## **Cancellation of Redemption**

A Member may cancel any pending Notice of Redemption before the completion of the five-year redemption period by providing written notice of cancellation signed by an officer of the Member to the Bank at 907 Walnut Street, Des Moines, IA 50309, Attention: Corporate Secretary. The Bank will impose a Cancellation Fee on any Member that cancels a Notice of Redemption. The Cancellation Fee is the fee in effect at the time the Bank receives the Notice of Redemption. Following receipt of a Notice of Redemption cancellation, the Bank will notify the Member of the Cancellation Fee. The Bank will charge a Cancellation Fee equal to the following:

- (1) 1% of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within one year of the date the Bank received the Notice of Redemption;
- (2) 2% of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within two years of the date the Bank received the Notice of Redemption;
- (3) 3% of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within three years of the date the Bank received the Notice of Redemption;
- (4) 4% of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within four years of the date the Bank received the Notice of Redemption; or

- (5) 5% of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within five years of the date the Bank received the Notice of Redemption.

The Board of Directors may adjust the Cancellation Fee percentage for each period between 0.00% and not more than the applicable percentage for such period specified above. The Board of Directors may also amend this range; however, changes to the range constitute an amendment to the Capital Plan that would require prior Finance Board approval. If the Board of Directors adjusts or amends the Cancellation Fee, it will determine whether the adjustment will apply to the cancellation of any previously submitted Notice of Redemption as well as those submitted in the future. The Bank will provide at least 15 days advance written notice to each Member of any adjustment or amendment to its Cancellation Fee.

A Notice of Redemption by a Member (whose membership has not been terminated) will automatically be cancelled if, within five business days after the expiration of the five-year redemption period, the Bank is prevented from redeeming the Member's Capital Stock because such redemption would cause the Member to fail to meet its Minimum Investment after such redemption. The automatic cancellation will have the same effect as a voluntary cancellation and the Bank will impose the Cancellation Fee percentage described above.

### **Repurchase**

The Bank, in its discretion, may repurchase Excess Stock without regard to any redemption period. With 15 days prior written notice to Members, the Bank may repurchase Excess Shares of Membership Stock. Any repurchase of Membership Stock automatically reduces the amount of Membership Stock subject to any outstanding Notice of Redemption by the amount of Membership Stock repurchased. If a Member has more than one pending Notice of Redemption, the Bank will automatically reduce the amount of Membership Stock that is subject to the pending Notice of Redemption in the same order in which the Bank received them. A Member's submission of a Notice of Withdrawal, or its termination of membership in any other manner, will not, in and of itself, cause any Membership Stock to be deemed Excess Stock. After the Conversion Date, the Bank does not intend to repurchase Excess Shares of Membership Stock nor Excess Shares of Membership Stock subject to an outstanding Notice of Redemption unless it meets the Bank's capital management needs.

The Bank will repurchase Activity Based Stock that exceeds an operational threshold on the 15th day of each month. If the 15th day of a month falls on a non-business day the repurchase will occur on the first business day preceding the 15th. Initially, the operational threshold amount will be \$50,000 per Member. The Board of Directors may adjust the operational threshold within a specified range of \$0 to \$250,000. The Board of Directors may amend this range; however, changes to the range constitute an amendment to the Capital Plan that would require prior Finance Board approval. The Bank will notify Members at least 15 days in advance of the scheduled date(s) for repurchasing Activity Based Stock and at least 15 days prior to the effective date of any change in or amendment to the operational threshold.

## **Limitations on Redemption or Repurchase**

The Bank's ability to redeem or repurchase Capital Stock is subject to a number of limitations. Accordingly, there can be no assurance that shares of Capital Stock subject to a Notice of Redemption will, in fact, be redeemed at the expiration of the five-year redemption period or that Excess Shares will be repurchased. Specifically, the Bank will not redeem or repurchase Capital Stock:

- (1) without the prior written approval of the Finance Board, if the Finance Board or the Board of Directors has determined that the Bank has incurred, or is likely to incur, losses that result in or are likely to result in charges against the capital of the Bank. This prohibition shall apply even if the Bank is in compliance with its capital requirements, and shall remain in effect for however long the Bank continues to incur such charges or until the Finance Board determines that such charges are not expected to continue;
- (2) if the redemption or repurchase would cause the Bank to fail to meet any minimum regulatory capital requirement;
- (3) if the redemption or repurchase would cause a Member to fail to maintain its Minimum Investment in Capital Stock; or
- (4) if the sum of all requested Capital Stock redemptions that the Bank is scheduled to make on any date equals or exceeds the amount that would cause the Bank to fall below its minimum regulatory capital requirements, in which case the Bank will process redemptions in the order in which notification was received, but in no case will the Bank redeem Capital Stock to the point that it would fail to meet its minimum regulatory capital requirements.

The Bank can not redeem Capital Stock if the Board of Directors suspends redemptions due to its reasonable belief that continued redemption of stock would cause the Bank to fail to meet its minimum regulatory capital requirements, prevent the Bank from maintaining adequate capital against a potential risk that may not adequately be reflected in its minimum regulatory capital requirements, or otherwise prevent the Bank from operating in a safe and sound manner. The Bank can not repurchase any Capital Stock without the written permission of the Finance Board during any period in which the Bank has suspended redemptions of Capital Stock under the circumstances described in this paragraph.

The Bank can not redeem or repurchase shares of stock from any Member of the Bank if: (1) the principal or interest on any consolidated obligation is not paid in full when due; (2) the Bank fails to certify in writing to the Finance Board that the Bank will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations; (3) the Bank notifies the Finance Board that it can not provide the foregoing certification, projects it will fail to comply with statutory or regulatory liquidity requirements, or will be unable to timely and fully meet all of its current obligations; or (4) the Bank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or negotiates to enter or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations.

## **Termination of Membership Subsequent to Conversion**

*General.* Subsequent to the Conversion Date, any Member may voluntarily withdraw from membership in the Bank upon written notice to the Bank. Further, a Member's membership may be terminated as a result of a consolidation or merger of a Member into a non-member or into a member of another FHLBank, or a Member's membership may be involuntarily terminated in accordance with regulations of the Finance Board in effect from time to time. Any Member that withdraws from membership or that has had its membership terminated may not be readmitted as a member of any FHLBank for a period of five years from the date membership was terminated.

*Voluntary Withdrawal or Termination.* Any Member may withdraw from membership by providing a Notice of Withdrawal signed by an officer of the Member to the Bank at 907 Walnut Street, Des Moines, IA 50309, Attention: Corporate Secretary. The membership of a Member that has submitted a Notice of Withdrawal will terminate five years from the date of the Bank's receipt of the Notice of Withdrawal, unless the Member cancels its Notice of Withdrawal prior to that date. The Bank's receipt of a Notice of Withdrawal also commences the five-year redemption period for all Capital Stock held by that Member that is not already subject to a pending Notice of Redemption. In the case of a Member whose membership has been terminated as a result of merger or consolidation into a non-member or into a member of another FHLBank, the redemption period for any Capital Stock that is not subject to a pending Notice of Redemption shall be deemed to commence on the date on which the charter of the former Member ceases to exist. The redemption period for Membership Stock purchased subsequent to the Bank's receipt of a Member's Notice of Withdrawal shall be deemed to have commenced when the Bank issued such Membership Stock. The Bank shall not redeem or repurchase any Capital Stock if the redemption or repurchase would result in any of the events described under "Description of Capital Plan - Limitations on Redemption or Repurchase."

No Member may withdraw from membership unless, on the date the membership is to terminate, there is in effect a certification from the Finance Board that the withdrawal of a Member will not cause the FHLBank System to fail to satisfy its obligation to make the payments to REFCORP.

A Member may cancel its Notice of Withdrawal prior to the completion of the five-year redemption period by providing written notice signed by an officer of the Member to the Bank at 907 Walnut Street, Des Moines, IA 50309, Attention: Corporate Secretary, of its intent to cancel its withdrawal request. The Bank will impose a Cancellation Fee on any Member that voluntarily cancels its Notice of Withdrawal in accordance with the provisions of the Capital Plan applicable to cancellation of redemption. See "Description of Capital Plan - Cancellation of Redemption."

*Involuntary Termination.* The Board of Directors has the right to terminate the membership of any Member that: (1) fails to comply with any requirement of the Bank Act, Finance Board regulations or the Capital Plan; (2) becomes insolvent or otherwise is subject to the appointment of a conservator, receiver or other legal custodian under federal or state law; or (3) would jeopardize the safety and soundness of the Bank if it were to remain a Member. The five-year redemption period for all Capital Stock owned by the former Member and not already subject to a pending Notice of Redemption shall commence on the date that the Board of Directors terminates the membership. However, the Bank can not redeem or repurchase any Capital Stock if the redemption or repurchase would result in any of the events described under “Description of Capital Plan - Limitations on Redemption or Repurchase.”

### **Rights Upon Withdrawal, Liquidation, Consolidation or Merger of the Member**

If a Member withdraws from membership or has its membership terminated for any reason, the Bank, in its sole discretion, will determine an orderly manner for the liquidation of all outstanding indebtedness (including prepayment fees) owed by the Member to the Bank and settlement of all other claims against the Member. The Bank may require the immediate repayment of all indebtedness, in which case the repayment shall be subject to any applicable prepayment fees. In the alternative, the Bank may allow the Member to continue to be obligated to the Bank for any length of time up to and including maturity. The Bank will require the Member to continue to hold Activity Based Stock necessary to support the Member’s advances or other transactions that remain outstanding following termination of membership. Upon the repayment of all outstanding indebtedness to the Bank and settlement of all other claims against the Member, the Activity Based Stock that was necessary to support the indebtedness shall become Excess Stock subject to redemption or repurchase. However, the Bank shall not redeem or repurchase any Activity Based Stock if the redemption or repurchase would result in any of the events described under “Description of Capital Plan - Limitations on Redemption or Repurchase.”

### **Amendments to the Capital Plan**

Upon a simple majority vote of the Board of Directors, a request to amend the Capital Plan may be submitted to the Finance Board. The effective dates for any proposed changes to the terms of the Capital Plan will be contained in any amendment request submitted to the Finance Board. To become effective, any amendment to the Capital Plan must be approved by the Finance Board. The Bank will provide notice to all Members of any amendment to the Capital Plan at least 15 days prior to the effective date of any such amendment.

## **12 Description of Capital Stock**

### **Par Value**

The par value of the Bank's Capital Stock is \$100 per share. Capital Stock will be issued, redeemed, repurchased and transferred at par value.

### **Ownership of Retained Earnings**

The retained earnings, paid-in surplus, undivided profits and equity reserves, if any, of the Bank are owned by the stockholders of Capital Stock in an amount proportional to the stockholder's share of the total shares of issued and outstanding Capital Stock. Stockholders have no right to receive any portion of these items except through the declaration of a dividend or capital distribution approved by the Board of Directors or upon liquidation of the Bank.

### **Voting Rights for Election of Directors**

The only voting rights that Members are entitled to are in regard to the election of directors. Voting rights in regard to the election of directors are set forth in 12 C.F.R. Part 915. Each Member is eligible to vote for the number of open elective director seats in the state in which its principal place of business is located. Each Member will be entitled to cast one vote for each share of Capital Stock that the Member was required to hold as of the applicable record date, except that the number of votes that each Member may cast for each directorship shall not exceed the average number of shares of Capital Stock that were required to be held by all Members located in that state on the record date. No share of Capital Stock shall have any voting preference.

### **Dividends**

The Board of Directors may, but is not required to, declare and pay dividends in either cash or stock. The Board of Directors may declare and pay different dividends for each subclass of Capital Stock. Unless the Board of Directors declares otherwise, dividends are non-cumulative. The Board of Directors may not declare and pay any dividend if: (1) the Bank's capital position is below its minimum regulatory capital requirements; (2) the Bank's capital position will be below its minimum regulatory capital requirements after paying the dividend; (3) the principal or interest on any consolidated obligation is not paid in full when due; (4) the Bank fails to certify in writing to the Finance Board that the Bank will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations; (5) the Bank notifies the Finance Board that it can not provide the foregoing certification, projects it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its current obligations; or (6) the Bank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or negotiates to enter or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations. Each Member will be entitled to receive dividends on Capital Stock held during the applicable dividend period for the period of time the Member owned the Capital Stock.

## **Transfer of Excess Stock**

A Member may transfer Excess Stock only to another Member that controls, is controlled by or is under common control with the Member subject to the prior approval of the Bank. The Bank will not approve a transfer if the transfer would result in the transferring Member being out of compliance with its Minimum Investment. All Excess Stock transfers shall be at par value and shall be effective upon being recorded on the appropriate books and records of the Bank.

If a Member that has filed a Notice of Redemption or Notice of Withdrawal transfers the Excess Stock subject to that notice to another Member, the transfer shall be deemed to be a cancellation of such notice upon the effective date of the transfer. The Member transferring the Excess Stock shall be responsible for paying any applicable Cancellation Fees. See “Description of Capital Plan - Cancellation of Redemption.”

## **Rights in Bank Liquidation, Merger or Consolidation**

If the Bank is liquidated, after full payment to the Bank’s creditors and to the extent of remaining funds, the Bank’s stockholders shall be entitled to receive the par value of their Capital Stock, as well as any retained earnings, in an amount proportional to each stockholder’s share of the total outstanding shares of Capital Stock. If the Bank merges with or consolidates into another FHLBank, the Board of Directors shall determine the rights and preferences of the Bank’s stockholders, subject to any terms and conditions imposed by the Finance Board.

## **13 Risk Factors**

You should carefully consider the risks described below, as well as the other information contained and incorporated by reference in this Information Statement, before making a decision regarding whether to opt out of the conversion to Capital Stock.

### **Risks Relating to the New Capital Structure**

#### ***Your Future Minimum Investment Requirement May Increase and You Could be Subject to Penalties or Termination of Membership if you do not Comply with any New Requirements.***

The Board of Directors may increase the Minimum Investment required of Members. In addition, the Board of Directors may apply any adjustment in the Activity Based Stock Requirement not only to new advances and other transactions, but also to existing advances and other transactions. Under the Capital Plan, Members are required to purchase any additional Capital Stock in the Bank as necessary to comply with such new requirements. In order to facilitate the purchase of any additional required Capital Stock, the Bank is authorized to automatically debit the appropriate amount from a Member’s deposit account at the Bank. Thus, no affirmative action is required to be taken by Members to purchase additional Capital Stock in the Bank as a result of an increase in the Minimum Investment. Any additional Capital Stock issued to Members to comply with increased Minimum Investment requirements will be subject to the five-year redemption period applicable to the Capital Stock.

The GLB Act requires Members to “comply promptly” with any increase in the required Minimum Investment to ensure that the Bank continues to satisfy its minimum regulatory capital requirements. However, according to the Finance Board, it is not clear whether the Bank or the Finance Board would have the legal authority to compel a Member to invest additional amounts of Capital Stock in the Bank. Nevertheless, even if a Member could not be compelled to make additional Capital Stock purchases, the failure by a Member to comply with the Minimum Investment requirements of the Capital Plan could subject it to substantial penalties, including the possible termination of its membership in the Bank. In the event of such termination of membership, the Bank may require the immediate repayment of all indebtedness prior to the maturity of such indebtedness, in which case the Member would also be subject to any applicable prepayment fees.

***There Is No Trading Market for the Capital Stock.*** There is no public or other trading market for the Capital Stock and Capital Stock may only be owned by the Bank’s Members. Transfers of Capital Stock are limited to transfers between affiliated Members with the approval of the Bank. There can be no assurance that the Bank would grant such approval in any particular case. As a result, you may be required to hold your Capital Stock until the expiration of the five-year redemption period or longer, and your investment could be effectively illiquid.

***The Bank May Not Redeem or Repurchase Your Capital Stock.*** A Member may not be able to have its investment in the Bank’s Capital Stock redeemed, even at the end of the applicable redemption period. In addition, a Member may not be able to have its Excess Stock repurchased by the Bank despite the Member’s desire to have such Capital Stock be repurchased and the Bank’s intention to repurchase Excess Shares of Activity Based Stock on at least a scheduled monthly basis. If the redemption of Capital Stock or the repurchase of such stock by the Bank would cause the Bank to fail to meet its minimum regulatory capital requirements, then such redemption or repurchase would be prohibited. Likewise, redemption or repurchase would not be honored by the Bank if such action would cause the Member to fail to maintain its required Minimum Investment in the Capital Stock of the Bank.

The Bank also can not redeem or repurchase Capital Stock without the prior written approval of the Finance Board if the Finance Board or the Board of Directors has determined that the Bank has incurred, or is likely to incur, losses that result in or are likely to result in charges against the capital of the Bank. This prohibition shall apply even if the Bank is in compliance with its capital requirements, and shall remain in effect for however long the Bank continues to incur such charges or until the Finance Board determines that such charges are not expected to continue. In addition, if the sum of all requested Capital Stock redemptions that the Bank is scheduled to make on any date equals or exceeds the amount that would cause the Bank to fall below its minimum regulatory capital requirements, then the Bank will process redemptions in the order in which notification was received, but in no case will the Bank redeem Capital Stock to the point that the Bank would fail to meet its minimum regulatory capital requirements.

The Bank may also determine to suspend the redemption or repurchase of Capital Stock if the Board of Directors reasonably believes that such continued redemption or repurchase of Capital Stock would cause the Bank to fail to meet its minimum regulatory capital requirements, prevent the Bank from maintaining adequate capital against a potential risk that may not adequately be reflected in its minimum regulatory capital requirements, or otherwise prevent the Bank from operating in a safe and sound manner.

The Bank can not redeem or repurchase shares of stock from any Member of the Bank if: (1) the principal or interest on any consolidated obligation is not paid in full when due; (2) the Bank fails to certify in writing to the Finance Board that the Bank will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations; (3) the Bank notifies the Finance Board that it can not provide the foregoing certification, projects it will fail to comply with statutory or regulatory liquidity requirements, or will be unable to timely and fully meet all of its current obligations; or (4) the Bank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or negotiates to enter or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations.

Accordingly, your investment in the Bank's Capital Stock could be rendered illiquid for an unforeseeable period of time as a result of any of the above circumstances.

***Your Excess Stock Could Become an Illiquid Investment.*** The Bank may choose to rely on your Excess Stock to satisfy its minimum regulatory capital requirements thereby rendering your Excess Stock illiquid. The Bank may rely from time to time upon the Excess Stock of Members, in addition to the amounts of Capital Stock required to be owned by Members, in order to satisfy its minimum regulatory capital requirements. In such case, a Member that owns Excess Stock would not be able to redeem stock for cash – nor could the Bank repurchase stock – as long as the Bank needs Excess Stock to satisfy its minimum regulatory capital requirements. Under such circumstances, a Member's investment in Excess Stock effectively would become a permanent investment in the Bank and would remain so unless and until the Bank were able to find another source of capital which could occur, for example, through an increase in its Membership or Activity Based Stock Requirements.

As of the Conversion Date of the Capital Plan, the Bank does not intend to rely upon Excess Stock to satisfy its minimum regulatory capital requirements. However, it is possible that the Bank might at some point in the future seek to rely upon Excess Stock to satisfy such requirements. To the extent that this were to be the case, and depending on the amount of Excess Stock that a Member holds and the extent to which the Bank relies on Excess Stock to satisfy its minimum regulatory capital requirements, a Member that owns Excess Stock may be unable to redeem such stock at the end of the five-year redemption period and the Bank may be prevented from repurchasing such stock from a Member.

***The Risk-Weighting of the Capital Stock May Increase, Which Could Discourage Member Transactions with the Bank and Adversely Affect the Bank's Earnings and Financial Condition.*** Under current regulations and practices of the federal bank regulatory agencies, FHLBank capital stock held by Members that are commercial banks and savings institutions, the accounts of which are insured by the Federal Deposit Insurance Corporation, are assigned a 20% risk-weighting for purposes of calculating those institutions' risk-based capital requirements. It is possible that one or more of the federal bank regulatory agencies might seek to increase the risk-weighting that would be applicable to Capital Stock held by Members that are subject to their oversight. To the extent that this were to occur with respect to a particular category of depository institutions, such Members would be required to maintain a higher level of risk-based capital per share of Capital Stock than they currently are required to hold. Depending on whether any federal banking agencies imposed increased risk weightings on the Capital Stock,

this might serve as a disincentive for some Members to hold Capital Stock, which could discourage Member transactions with the Bank and adversely affect the Bank's future earnings and financial condition.

***Your Ability to Hold Excess Stock May Be Restricted.*** Regulations or policies of the bank regulatory agencies also could limit the ability of Members to purchase or hold Excess Stock. Under Finance Board regulations, a Member may purchase Excess Stock as long as such purchase is approved by the Bank and is permissible under the applicable laws under which the Member operates. At least one bank regulatory agency has previously issued guidance on the extent to which its constituents could purchase excess FHLBank stock. In 1996, the Office of the Comptroller of the Currency issued an interpretive letter stating that a national bank could purchase excess FHLBank stock only to the extent that such stock facilitates the national bank's plans to expand funding of residential housing finance assets and such plans are documented in the bank's business plans. It is possible that federal or state agencies that regulate the activities of Members could seek to further limit the ability of Members to purchase or hold Excess Stock. In such case, the Bank may be unable to issue Excess Stock to certain Members, which could adversely affect its ability to raise additional capital. Restrictions on the use of Excess Stock also generally could result in the imposition of a higher required Minimum Investment for Members.

***The Bank's Ability to Pay Dividends to You May Be Restricted.*** The Bank may pay dividends on its Capital Stock only out of previously retained earnings or current net earnings. However, the Bank may not pay dividends if it is not in compliance with its minimum regulatory capital requirements or if, after paying a dividend, it would fail to meet any of such minimum requirements. The Bank also may not pay a dividend if (1) the principal or interest on any consolidated obligation is not paid in full when due; (2) the Bank fails to certify in writing to the Finance Board that the Bank will remain in compliance with its liquidity requirements and will remain capable of making full and timely payment of all of its current obligations; (3) the Bank notifies the Finance Board that it can not provide the foregoing certification, projects it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its current obligations; or (4) the Bank actually fails to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of its current obligations, or negotiates to enter or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations. The application of SFAS 133 may also have a negative impact on the amount of dividends paid in any given year. This is because SFAS 133 has led to more variability in reported earnings. See "Funding Sources – Strategy with Respect to Interest-Rate Exchange Agreements" herein. While the Bank intends to declare and pay dividends on the Capital Stock on a quarterly basis, the level of any Bank dividends may change and it is possible that the Bank may not be able to pay dividends in the future.

***Amendments to the Bank's Capital Plan Will Not Require Your Consent or Approval.*** The Board of Directors is authorized to amend the Capital Plan. All amendments must be approved by the Finance Board before they may become effective. No amendment to the Capital Plan is subject to Member consent or approval. While amendments must be consistent with the Bank Act and Finance Board regulations, it is possible that they would result in changes to the Capital Plan that could adversely affect the rights and obligations of Members. In such event, you will not be able to withdraw from membership or have your Capital Stock redeemed for a five-year period.

***Your Rights in the Event of a Liquidation, Merger or Consolidation May Be Uncertain.***

Holders of Capital Stock own the retained earnings, surplus, undivided profits and equity reserves of the Bank. The Bank's Capital Plan provides with respect to liquidation that a stockholder, after payment in full of all Bank creditors and to the extent of remaining funds, will be entitled to receive the par value of its Capital Stock as well as any retained earnings in an amount proportional to the stockholder's share of the total outstanding shares of Capital Stock. With respect to a merger or consolidation, the Board of Directors will determine the rights and preferences of the Bank's stockholders, subject to any terms and conditions imposed by the Finance Board. Capital Plan provisions governing liquidation and merger are subject to the Finance Board's statutory authority to prescribe regulations or orders governing liquidations and reorganizations of any FHLBank. The Bank can not predict how the Finance Board might exercise its authority with respect to liquidations or reorganizations, or whether any actions taken by the Finance Board in this regard would be inconsistent with the provisions of the Bank's Capital Plan or the rights of holders of Capital Stock in the retained earnings of the Bank.

**Risks Relating to the FHLBank System**

***The Bank's Joint And Several Liability for the Consolidated Obligations of the FHLBank System May Require It to Make Payments on Consolidated Obligations for Which It Is Not the Primary Obligor and Prevent It from Redeeming or Repurchasing Your Capital Stock or Paying Dividends.***

Under the Bank Act, the Bank is jointly and severally liable with the other FHLBanks for the consolidated obligations issued by the FHLBanks through the Office of Finance. If another FHLBank were to default on its obligation to pay principal or interest on any consolidated obligation, the Finance Board may allocate the outstanding liability among one or more of the remaining FHLBanks on a pro rata basis or on any other basis the Finance Board may determine. This could represent a significant use of liquidity for the Bank, which may adversely affect the Bank's financial condition and disrupt the Bank's regular business activities, including the ability to provide low-cost advances to Members. In addition, the Bank's ability to pay dividends to its Members or to redeem or repurchase shares of its Capital Stock could be affected not only by its own financial condition, but also by the financial condition of one or more of the other FHLBanks.

***The Bank Could Be Subject to Adverse Changes in Statute or Regulations.*** The FHLBanks are governed by the Bank Act and regulations adopted by the Finance Board. The FHLBanks were created to further the government policy of facilitating the flow of mortgage credit and the promotion of home ownership in the United States. From time to time, Congress has amended the Bank Act in ways that have significantly affected the rights and obligations of the FHLBanks and the manner in which they carry out their housing finance mission. It is possible that legislative changes to the Bank Act in the future could adversely affect the business, operations or financial condition of the Bank.

Regulations and policies of the Finance Board govern, among other things, the permissible investments and activities of FHLBanks, risk management practices, capital requirements and management and supervisory issues. It is possible that new regulations or policies adopted by the Finance Board, or changes to existing regulations or policies, also could adversely affect the business, operations or financial condition of the Bank or increase the Bank's costs of complying with these new requirements.

***A Decision by the Finance Board to Permit Multi-District Membership Could Adversely Affect the Bank's Business and Financial Condition.*** On October 3, 2001, the Finance Board solicited comments on the implications for the FHLBank System if institutions were permitted to become members of more than one FHLBank. The request was prompted by the submission of several petitions requesting that the Finance Board permit a single depository institution involved in an interstate merger transaction to become a member of two FHLBanks concurrently. These petitions were subsequently withdrawn. A decision by the Finance Board to approve these petitions or permit multi-district membership could significantly affect the business and operations of the Bank and the FHLBank System.

While the issues are complex and unprecedented, multi-district membership would result in a greater level of competition among the FHLBanks on a variety of levels, which could adversely affect the Bank. Multi-district membership would also raise a myriad of operational issues including, among other things, whether a single institution would be required to comply with the stock purchase requirements of multiple FHLBanks, how collateral pledged by a single institution to secure advances should be apportioned among multiple FHLBanks and the extent to which a single institution should be permitted to have representation on the boards of directors of multiple FHLBanks. These issues could take significant time to resolve and may ultimately be resolved in a manner that is disadvantageous to the business, capital position or other operations of the Bank. On the other hand, if, as is currently the case, multi-district membership is not permitted, interstate mergers involving members from different FHLBank districts may result in an increase in the concentration of large members in some FHLBanks and a decrease in membership and loss of business in other FHLBanks.

On January 22, 2002, the Finance Board announced that it intended to defer action on multi-district membership petitions until it decided on a course of action to address broader membership issues. On December 11, 2002, the Finance Board received an opinion of counsel that concluded that the Finance Board had authority to permit multi-district membership. On December 20, 2002, the Finance Board requested comments from the FHLBanks regarding ongoing changes in the financial services industry. It is unclear what action, if any, the Finance Board ultimately will take on the multi-district membership petitions or multi-district membership issues in general.

***There are Proposals to Have the FHLBanks Become Registrants with the Securities and Exchange Commission Under the Securities Exchange Act of 1934 (the “Exchange Act”).***

The Finance Board is currently considering enhancements to the public disclosures made by the FHLBanks and the FHLBank System, including a proposal by the Chairman of the Finance Board that the FHLBanks voluntarily register with the SEC under the Exchange Act. In August 2002, Treasury Department Under Secretary Peter Fisher wrote to each of the presidents of the FHLBanks stating that the Administration strongly supported the agreement under which the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Federal National Mortgage Association (“Fannie Mae”) each agreed to voluntarily register their common stock with the SEC under the Exchange Act and indicated that the Administration believes that the disclosure requirements of the Exchange Act as interpreted and applied by the SEC should apply to all Government Sponsored Entities (“GSEs”), including the FHLBanks. In December 2002, the Finance Board held a public hearing on enhanced disclosure under the Exchange Act at which several of the FHLBanks presented oral and written testimony in support of an enhanced disclosure initiative that would not involve registration with the SEC.

The Bank is unable to predict whether it ultimately will become an SEC registrant under the Exchange Act. In the event the Bank were to become a registrant under the Exchange Act, either as a result of a legal mandate or voluntary agreement, the Bank would become subject to the Exchange Act and the rules and regulations of the SEC under the Exchange Act, including periodic reporting and filing requirements and initial and periodic SEC reviews. In such event, the Bank anticipates that its compliance and other costs, both direct and indirect, could increase significantly. In addition, in the event equity securities of the Bank were registered under the Exchange Act, Members that own significant amounts of Capital Stock would be subject to various disclosure and reporting requirements, unless a specific exemption were provided from those requirements.

**Risks Relating to the Business of the Bank**

***We Are Exposed to Changes in Interest Rates, Which Could Adversely Affect Our Earnings and Financial Condition.*** Like many financial institutions, the Bank realizes income primarily from the spread between interest earned on its assets and the interest paid on its borrowings. It is expected that the Bank, from time to time, will experience “gaps” in the interest-rate sensitivities of its assets and liabilities, meaning that either its interest-bearing liabilities will be more sensitive to changes in market interest rates than its interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to the Bank’s position, the gap will adversely affect the Bank’s earnings and the net present value of the Bank’s interest-sensitive assets and liabilities.

The Bank uses a number of measures to monitor and manage changes in interest rates, including duration and market value sensitivity analysis and income simulations. In order to achieve the Bank’s asset-liability management objectives, management uses interest rate derivatives to convert a substantial portion of the Bank’s fixed-rate assets and liabilities to floating-rate cash flows that vary with the level of interest rates. This technique stabilizes market-value fluctuations in the Bank’s assets, liabilities and equity, but does tend to create volatility in the Bank’s absolute level of dividends and earnings because a large percentage of the Bank’s capital is invested in assets indexed to short-term interest rates. In addition, our hedging strategies may not always be successful in minimizing our exposure to interest rate fluctuation, which could have a material adverse effect on our earnings and financial condition.

***Our Earnings may be Adversely Affected by Prepayment Risks in Mortgage Assets.*** The prepayment option owned by the mortgagee can substantially alter the schedule of the return of mortgage principal to the mortgage investor. Normally, when interest rates decrease, mortgage prepayments increase, causing a faster prepayment of principal to the investor who must reinvest the principal in lower yielding assets sooner than expected. When interest rates increase, mortgage prepayments decrease, causing a slower prepayment of principal to the investor who must wait longer than expected to reinvest the principal in the higher interest-rate environment. The Bank has and will continue to seek to mitigate this prepayment option risk, although not completely, by participating in the issuance of long-term callable and noncallable debt obligations, entering into interest rate derivative contracts and rebalancing cash flow mismatches that occur over time based upon current and expected market conditions. It is impossible to perfectly hedge convexity risk in mortgage loans, and therefore, the income of the Bank could be adversely affected by this risk.

***Our Use of Derivatives and Other Investments Subjects Us to Counterparty Credit Risk.*** The Bank assumes some level of unsecured credit risk when entering into derivative contracts, securities transactions and money market transactions with counterparties. The Bank has a policy that limits the amount of unsecured credit risk it can assume with any counterparty. However, the insolvency or other inability of a significant counterparty to perform its obligations under a derivative contract or other agreement could have an adverse effect on the Bank's financial condition and results of operations.

In regard to derivative contracts, the Bank uses master agreements that contain provisions that allow the Bank to net the exposure under all transactions with the counterparty to one net amount. At times, the Bank enters into derivative contracts with foreign counterparties in jurisdictions where the law is not certain that the netting provisions would be enforceable in the event of the insolvency of the foreign counterparty. Although the Bank actively monitors the credit rating of all counterparties, it is possible that the Bank may not be able to terminate the agreement with a foreign counterparty before the counterparty would become subject to an insolvency proceeding.

***The Concentration of Outstanding Advances to a Small Number of Members Could Adversely Affect the Bank's Earnings.*** On December 31, 2002, 45% of outstanding advances were extended to the Bank's five largest borrowing customers. The average remaining term of the advances to these institutions was 4.1 years as of December 31, 2002. If these top five borrowers were to repay these advances as they became due and no other advances were made to replace them, the Bank's income could be adversely affected. The loss of the Bank's five largest borrowing customers could also have a material adverse impact on the Bank's dividend until appropriate adjustments are made to the Bank's assets, liabilities and derivative portfolios and its operating expenses. The duration and magnitude of the adjustment period would depend on a number of factors, including: (1) the amount of any stock redemption; (2) the profitability of any advances that were repaid; (3) the profitability of the Bank's remaining investment portfolio; (4) the remaining level of advances; and (5) the extent and speed to which the Bank can reduce its operating expenses.

***The Bank Is Dependent on Uninterrupted Access to the Capital Markets.*** The business of the Bank is reliant on its ability to access the capital markets at competitive market rates. The Bank maintains a minimum amount of liquidity to meet five business days of funding needs both through investments in liquid assets and maintenance of available borrowing capacity. The Bank's income and operations could be adversely affected if it were not able to access the capital markets at competitive rates for a prolonged period of time.

***The Lending Business Is Highly Competitive.*** The primary business of the Bank is to make advances to its Members. One source of competition for the Bank's short- and medium-term advances is the reverse repurchase lending market. The capital markets are another source of competition for Bank advances. Any of these sources of competition could adversely affect the income of the Bank.

***Reductions in the Cost of Advances to Members Could Adversely Affect the Bank's Earnings.*** Although the Board of Directors and management believe that a primary benefit of Bank membership should accrue to borrowing Members in the form of lower-cost advances, any decision to further lower advance spreads in order to gain volume or increase benefit to borrowing customers, could result in lower earnings, which could result in lower dividend yields to Members.

***A Reduction in the Bank's Earnings Would Result in Lower AHP Subsidies that the Bank can Make Available to Members.*** In order to fund the AHP, the FHLBanks as a group are required to contribute the greater of \$100 million or 10% of current year income before AHP charges, but after the assessment for REFCORP. Obtaining access to the subsidies in the AHP is a significant benefit to the Bank's Members. If the Bank's earnings were to be adversely affected, the level of subsidies, and therefore one of the benefits of membership, would be reduced.

***An Increase in Our AHP Contribution Would Reduce the Bank's Earnings and the Amount the Bank Is Able to Distribute to You as a Dividend.*** The FHLBanks as a group are required to contribute the greater of \$100 million or 10% of current year income before AHP charges, but after the assessment for REFCORP. If the net income of the FHLBank System did not generate the \$100 million contribution to AHP, then each FHLBank would be required to contribute more than 10% of its net income to the AHP. Increasing the Bank's AHP contribution percentage in such a scenario would reduce earnings and potentially reduce the dividends paid to Members.

***The Bank May Become Subject to Enhanced Risks Associated with New Forms of Collateral.*** The GLB Act authorized the FHLBanks to accept secured small-business and small-farm loans as collateral for advances to those Members, the accounts of which are insured by the Federal Deposit Insurance Corporation with average total assets over the preceding three year period under \$538 million as of January 1, 2003, which amount adjusts annually. The Bank began accepting these types of collateral in 2000. These forms of collateral are inherently riskier than certain other forms of collateral accepted by the Bank, such as cash or U.S. Treasury securities. If a Member were to default on an advance, the Bank may have more difficulty realizing the value on these categories of collateral due to their inherent risks.

## 14 Federal Income Tax Implications

### General

The following is a general summary of the anticipated U.S. federal income tax implications of the conversion of shares of existing capital stock into shares of Capital Stock (the “Recapitalization”) and certain other transactions to holders of existing capital stock. This discussion assumes that such existing shares of capital stock are held as capital assets and does not address all of the U.S. federal income tax consequences that may be relevant to particular stockholders in light of their individual circumstances.

The following discussion is based upon the Internal Revenue Code of 1986, as amended (the “Code”), laws, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and foreign laws are not addressed herein. No ruling has been or will be sought from the Internal Revenue Service (the “IRS”) as to the U.S. federal income tax implications of the Recapitalization or the ownership of Capital Stock and the following discussion is not binding on the IRS or the courts. Furthermore, no assurance can be given that the IRS will not successfully challenge certain of the conclusions set forth below. This discussion does not address tax consequences of the purchase, ownership, or disposition of the Capital Stock by holders of the Capital Stock other than those holders who acquired their Capital Stock pursuant to the Recapitalization.

**This summary does not constitute, and should not be considered as, legal or tax advice to members. The tax implications for individual Members of the Recapitalization and certain other transactions discussed herein will depend on the particular facts and circumstances of each such Member. Members are strongly urged to consult their tax advisors as to the specific tax consequences to them of the Recapitalization, including the application of federal, state, local and foreign income and other tax laws based on each Member’s particular facts and circumstances.**

### Taxation of the Recapitalization

The Capital Plan provides for a conversion of each Member’s shares of existing capital stock for an equal number of shares of newly issued Capital Stock. Members having a stock shortfall will be required to purchase additional shares of Capital Stock at par value. Members must notify the Bank prior to June 16, 2003 if they want the Bank to redeem any or all Excess Stock on the Conversion Date, in which case the Bank shall pay cash at par value in exchange for such Excess Stock. Members that have not notified the Bank on or prior to June 16, 2003, that they want the Bank to redeem Excess Stock on the Conversion Date shall have such stock converted to Excess Shares of Membership Stock subject to a five-year redemption period.

The Bank intends that the Recapitalization will constitute a “reorganization” within the meaning of section 368(a)(1)(E) of the Code. Accordingly, Members should not recognize gain or loss on the receipt of Capital Stock in exchange for the stock in the Bank that they currently hold. Members receiving cash in the recapitalization, however, will recognize income equal to the lesser of:

- The cash received, or
- The excess of (a) the aggregate fair market value of cash and Capital Stock received in the recapitalization, over (b) the Member’s tax basis in the stock exchanged.

Any gain recognized by a Member will be taxed as a capital gain unless the receipt of the cash is deemed to “have the effect of the distribution of a dividend,” in which case, the gain would be taxable as ordinary income. In determining whether the receipt of cash “has the effect of the distribution of a dividend,” the dividend equivalency rules of Code Section 302(b) are to be considered. Under Code Section 302(b), any gain recognized by a Member will be treated as a capital gain if the effect of the exchange and receipt of cash is (1) a “substantially disproportionate” redemption or repurchase of stock with respect to such Member, or (2) is “not essentially equivalent to a dividend” with respect to such Member.

A redemption or repurchase of a Member’s stock will be “substantially disproportionate” if, as a result of the exchange, both (1) the Member owns less than 50% of the stock of the Bank and (2) the ratio determined by dividing the number of shares of stock owned by the Member immediately after the exchange by the total number of shares of stock outstanding is less than 80% of the same ratio calculated immediately before the exchange.

Whether the receipt of cash in the exchange is “not essentially equivalent to a dividend” is to be determined based upon the particular facts and circumstances of the exchange. Case law has generally required a “meaningful reduction” in a shareholder’s proportionate equity interest in order to find a redemption or exchange “not essentially equivalent to a dividend.”

A Member receiving Capital Stock pursuant to the Recapitalization will take a tax basis in such Capital Stock equal to its adjusted tax basis in shares of existing capital stock surrendered in the exchange. A Member’s holding period in Capital Stock received in the Recapitalization will generally include the period for which the Member held the shares of existing capital stock surrendered in the exchange.

### **Taxation of Stock Redemptions and Repurchases**

The redemption or repurchase of a Member’s Capital Stock will be treated as a sale of the stock, unless it is neither “substantially disproportionate” nor “not essentially equivalent to a dividend” under the rules of Section 302(b) discussed above in the context of the Recapitalization. If the redemption or repurchase is treated as a sale of stock, the Member will recognize a capital gain or loss equal to the difference, if any, between the proceeds received in the transaction and the Member’s basis in the stock being redeemed or repurchased. If, however, the transaction does not satisfy the tests under Section 302(b), it will be treated as a dividend. Members should consult their tax advisors as to the tax treatment of a redemption or repurchase of their Capital Stock.

## **Share Identification**

In the case of either redemption or repurchase transactions that are treated as sales or exchanges, the amount of a Member's gain or loss may be affected by the specific shares and their adjusted tax basis that are identified or otherwise treated as being redeemed or repurchased.

## **Future Distributions**

Following the Recapitalization, the Bank may pay dividends on Capital Stock in the form of cash or additional Capital Stock.

*Cash Distributions.* If a dividend distribution is paid in cash, the distribution is first treated as ordinary dividend income to the extent of the Bank's accumulated or current earnings and profits. The amount of the distribution received in excess of such earnings and profits will be treated next as a non-taxable return of capital to the extent of the Member's basis in its Capital Stock and, thereafter, as a capital gain to the extent it exceeds the Member's basis. The Bank anticipates that its available earnings and profits will be sufficient such that cash distributions provided by the Bank will be taxed in full as ordinary dividend income.

*Stock Dividends.* A common stock dividend payable on outstanding common stock is generally tax-free to the recipient shareholder under Section 305(a) of the Code. However, the IRS in the past (prior to the GLB Act) attempted to treat stock dividends paid by a FHLBank as taxable under a special exception contained in Section 305(b)(1), which provides that a distribution by a corporation of its stock will be treated as a taxable dividend distribution if, at the "election" of any of the shareholders, the distribution is payable either in the corporation's stock or in cash or other property. Accordingly, in the case of the Bank, if any one Member has such an "election," the stock distribution will be taxable to all the recipient Members, regardless of whether the election is actually exercised. However, several courts and, ultimately, the IRS ruled that a pattern exhibited by a FHLBank in granting Member requests to have excess stock redeemed did not confer upon the Member an "election" under Section 305(b)(1) to receive a dividend in the form of stock or cash, given the discretion vested in the FHLBank under applicable laws and regulations (prior to the GLB Act) in honoring such requests.

In the case of a Capital Stock dividend payable after the Recapitalization on outstanding Capital Stock, the Member shall be responsible for maintaining records and procedures to identify the particular shares of Capital Stock distributed. Assuming these identification procedures are considered adequate, the Bank does not believe that the receipt of such a Capital Stock dividend is taxable under Section 305(b)(1) of the Code merely because, under the Finance Board regulations, shares of such stock are redeemable if certain conditions are met. In particular, the Member must first submit its Notice of Redemption with respect to a particular share and then such share may be redeemed following the expiration of a five-year period, assuming the Notice of Redemption is not subsequently cancelled by the Member, and provided certain conditions are met at that subsequent time, including that following the redemption the Member continues to meet its Minimum Investment, the Bank continues to meet its minimum regulatory capital requirements, in the event of an impairment of the Bank's capital, the Finance Board approves the redemption, and the Bank has not decided, based on certain circumstances, to suspend redemptions. Moreover, the Bank believes that its right to repurchase Excess Stock held by a

Member does not render a Capital Stock dividend payable on outstanding Capital Stock taxable under Section 305(b)(1) because such right, as under pre-GLB Act law, is within the Bank's discretion. However, a dividend payable in Capital Stock on outstanding Capital Stock conceivably could be taxable under other provisions of the Code, including other provisions contained in Section 305(b). Accordingly, Members should consult their tax advisors regarding the treatment of stock dividends.

To the extent that the receipt of a stock dividend is tax-free, the basis in the Capital Stock with respect to which the new Capital Stock was issued is generally allocated between the old and new stock in proportion to the fair market value of each on the date of distribution, and the holding period of the new Capital Stock received will generally include the period for which the Member held the old Bank stock. If the stock distribution is taxable, the fair market value of the stock distributed must be treated by the Member as an ordinary dividend distribution, taxable as described above, and the shares received in the distribution will have a fair market value basis and the new holding period for the new shares will begin as of the date following the acquisition of such shares by the Member.

## **15 Accounting Considerations**

The following is a general discussion of the accounting treatment of the Capital Plan implementation based upon applicable accounting standards as of the date of this Information Statement. However, Members should note that the discussion is general in nature, may not address the particular facts and circumstances of a Member's individual accounting situation and is not intended as accounting advice. For these reasons, the Bank strongly recommends that all Members consult with their own accountants regarding the anticipated accounting treatment for (1) receipt of Capital Stock in exchange for the Bank's existing capital stock held by the Members; (2) redemption of the Bank's existing capital stock held by Members that opt out of the Capital Plan; and (3) redemption of any of the Capital Stock received upon or after implementation of the Capital Plan.

The receipt of Capital Stock in exchange for the Bank's existing capital stock will probably not cause the Members to realize any gain for accounting purposes. In order to realize a gain on the conversion of the existing capital stock into Capital Stock, the Members would have to receive something of "value" that they do not already directly or indirectly have. This "value" could include additional ownership rights to the Bank's residual net assets or other incremental return. It is the Bank's position that, from an accounting perspective, there is no incremental value received at the time of the exchange of the Bank's existing capital stock for Capital Stock. For accounting purposes, the receipt of Capital Stock in exchange for the Bank's existing capital stock is a non-monetary, or non-cash, transaction. Generally, non-monetary transactions are based on the fair value of the items being exchanged. If the property received has a higher fair value than the property surrendered, a gain is recognized on the transaction. There are exceptions to using fair value as the basis of valuation of a non-monetary transaction. If fair values are not determinable within reasonable limits or if the exchange is not necessarily the culmination of the earnings process, the exchange should be based on the recorded cost of the asset surrendered.

The Bank believes that the recorded cost of the asset surrendered should be used to determine whether there is a gain on the exchange. The Bank believes that the fair value of neither the Bank's existing capital stock nor the Capital Stock can reasonably be determined because their ownership is restricted to Members of the Bank and they lack a trading market. This conclusion is consistent with relevant accounting literature, as reflected in paragraph 5.95 of the American Institute of Certified Public Accountants "Audit and Accounting Guide for Banks and Savings Institutions."

The Bank also believes that the exchange of stock does not constitute the culmination of the earnings process. In the exchange process, Members are converting from one form of equity ownership interest to a slightly different form, but the underlying purpose of such ownership to Members - access to the Bank's products and services - would not change. After the exchange, Members would still be required to maintain an ownership interest in order to continue to have access to the Bank's products and services. In addition, the fundamental characteristics of the Members' equity ownership remain the same before and after the conversion. Specifically, both before and after the transaction:

- Both stocks are redeemable at par value;
- Both stocks earn dividends as determined by the Board of Directors; and
- Members' voting rights for election of directors remain constant at one vote per share, subject to certain limitations.

As a result of the above, the exchange of the Bank's existing capital stock for the Capital Stock should be valued at the recorded cost of the asset surrendered. Since both the Bank's existing capital stock and the Capital Stock are valued at their \$100 par value, there should be no realization of gain or loss for accounting purposes.

The fact that some of the Bank's existing capital stock was issued as stock dividends should probably not change the above analysis. The Bank has granted dividends in the form of stock in the past, computed in accordance with Finance Board policy on the paid-in value of stock outstanding held as of the dividend declaration date. All stock dividends have been issued on a pro rata basis to all Members meeting the ownership requirements. As such, these are similar in their form to stock splits, under which no diminution in value occurs if done on a pro rata basis (except for fractional shares redeemed in cash, which are deemed immaterial). The accounting for conversion of the Capital Stock by the Member should therefore not be impacted by the fact that a portion of the Members' existing capital stock has been previously received in the form of stock dividends.

The above analysis is also applicable to the Bank's (1) redemption of its existing capital stock if the shareholder opts out of the Capital Plan; and (2) redemption and repurchase of Capital Stock after implementation of the Capital Plan. Redemptions and repurchases are made at par value of \$100, which is the same par value as the existing capital stock on the Member's financial statements. While there would be no gain or loss to a shareholder upon redemption, should a shareholder opt out of the Capital Plan, the shareholder would no longer have access to the Bank's products and services once the existing capital stock is redeemed.

## **16 Supervision and Regulation**

### **General**

The FHLBanks are entities created under the Bank Act whose purpose is to fulfill government objectives related to increasing the flow of credit to home mortgage markets and community development purposes. The FHLBanks are regulated by the Finance Board, an independent agency in the executive branch of the federal government. A five-member board of directors manages the Finance Board. The Secretary of the Department of Housing and Urban Development or his or her designee serves as a director of the Finance Board. The President appoints the other four directors with the advice and consent of the Senate. Appointed directors hold office for terms of seven years and serve on a full-time basis. The President designates one of the four appointed directors to serve as chairman of the Finance Board.

The Finance Board's duties are to: (1) ensure the safety and soundness of the FHLBanks; (2) ensure the FHLBanks carry out their housing finance mission; (3) ensure the FHLBanks remain adequately capitalized and able to raise funds in the capital market; and (4) supervise the FHLBanks. To meet these duties, the Finance Board has issued regulations and policies that govern, among other things, the permissible activities, powers and investments of the FHLBanks; risk management practices; capital requirements; and the authority and duties of FHLBank directors and senior management. Certain of these regulations and policies are referred to below or elsewhere in this document.

The capital plans adopted by the FHLBanks pursuant to the GLB Act, and any amendments to those plans, must be reviewed and approved by the Finance Board. The Finance Board also has broad enforcement authority over the FHLBanks. It may suspend or remove for cause a director, officer, employee or agent of any FHLBank and may bring enforcement proceedings, such as cease and desist orders and the imposition of civil money penalties, against a FHLBank or any of its executive officers or directors, for engaging in unsafe or unsound practices or violations of laws, rules, regulations or orders of the Finance Board. The Bank Act requires the Finance Board to conduct annual examinations of the FHLBanks.

The references to laws, regulations and policies which are applicable to the Bank set forth below and elsewhere herein are brief summaries thereof which do not purport to be complete and which are qualified in their entirety by reference to such laws, regulations and policies.

## Advances

*General.* The Bank makes advances to Members on the security of mortgages and other collateral pledged by Members. The Bank has developed its own advance program, as authorized in the Bank Act and Finance Board regulations, to meet the particular needs of its Members. Finance Board regulations authorize the Bank to make advances for up to ten years, but permit advances with longer maturities consistent with the safe and sound operation of the Bank. The Bank generally may make advances with maturities of greater than five years only for the purpose of enabling any Member to purchase or fund new or existing residential housing finance assets and, in the case of Members that qualify as “community financial institutions,” including small business and agriculture-related loans. Under Finance Board regulations, a “community financial institution” is a Federal Deposit Insurance Corporation-insured institution with average total assets over the preceding three-year period less than a specified amount, which for the year 2003 is \$538 million.

*Pricing.* The Bank generally is prohibited from pricing advances to Members below the marginal cost to the Bank of raising matching term and maturity funds and related administrative and operation costs. In pricing its advances, the Bank may distinguish among its Members based on, among other things, its assessment of the credit and other risks of lending to a particular Member. Advances with a maturity or repricing period greater than six months generally require a prepayment fee sufficient to make the Bank financially indifferent should the borrower decide to prepay the advance.

*Collateral.* The Bank is required, at the time that it originates or renews an advance, to obtain and maintain a security interest in eligible collateral of a Member, or an affiliate of a Member. Collateral eligible to secure advances includes assets in the following categories:

- (1) fully disbursed, whole first mortgages on improved residential property (not more than 90 days delinquent) or securities representing an interest in such mortgages;
- (2) securities issued, insured or guaranteed by the U.S. government or any of its agencies (including without limitation, MBS issued or guaranteed by Fannie Mae, Freddie Mac or the Government National Mortgage Association (“Ginnie Mae”));
- (3) cash or deposits in a FHLBank;
- (4) other real estate-related collateral (including, but not limited to, home equity loans, commercial real estate loans and mortgage loan participations), provided that such collateral has a readily ascertainable value and the Bank can perfect a security interest in such property; or
- (5) secured small-business and agriculture-related loans, or securities representing a whole interest in such loans, in the case of a Member that qualifies as a “community financial institution,” provided, that such collateral has a readily ascertainable value and the Bank can perfect a security interest in such property.

The Bank has the right to take such steps as it deems necessary to protect its secured position on outstanding advances, including requiring additional collateral, whether or not such additional collateral would otherwise be eligible to secure an advance. As additional security for a Members' indebtedness, the Bank has a statutory lien pursuant to the Bank Act upon that Member's Capital Stock.

The Bank Act affords any security interest granted by any Member of the Bank, or any affiliate of any such Member, priority over the claims and rights of any party, including any receiver, conservator, trustee or similar party having rights of a lien creditor, provided that such security interest shall not be entitled to priority over claims and rights that (1) would be entitled to priority under otherwise applicable law or (2) are held by an actual bona fide purchaser for value or by parties that are secured by actual perfected security interests.

*Advances to Housing Associates.* The Bank is authorized to make advances to non-member "housing associates" located in its district. Housing associates are approved mortgagees under Title II of the National Housing Act. Eligible housing associates must also be chartered under law and have succession, be subject to inspection and supervision by some governmental agency, and lend their own funds as their principal activity in the mortgage field. Housing associates are not required to purchase Capital Stock in the Bank and are not subject to many provisions of the Bank Act that apply to Members. However, the same regulatory lending requirements apply to housing associates as apply to Members.

*Capital Stock Requirements.* The aggregate amount of outstanding advances made by the Bank to a Member may not exceed 20 times the amount paid in by such Member for capital stock in the Bank. With the passage of the GLB Act, this statutory limit will be eliminated upon implementation of the Capital Plan. Until that time, the Bank remains subject to the limitation under the Finance Board's advance regulations. Upon the Conversion Date, Members shall no longer be subject to this limit, but will be subject to the Minimum Investment requirements contained in the Bank's Capital Plan. See "Description of Capital Plan – Minimum Investment."

### **Standby Letters of Credit**

The Bank is authorized to issue or confirm on behalf of Members standby letters of credit to assist Members with (1) facilitating residential housing finance; (2) facilitating community lending; (3) asset/liability management; and (4) liquidity or other funding. At the time the Bank issues or confirms a standby letter of credit, it must obtain and maintain a security interest in collateral that is sufficient to fully secure a Member's obligation to reimburse the Bank for value given by the Bank to the beneficiary under the terms of the standby letter of credit.

## **Acquired Member Assets**

Under the Finance Board's Acquired Member Assets regulation, the Bank may hold certain assets acquired from or through its Members or housing associates. These assets include whole loans eligible to secure advances (excluding mortgages above the conforming loan limit), whole loans secured by manufactured housing or state or local housing finance agency bonds. The regulation requires Members and housing associates to provide credit enhancement for Acquired Member Assets such that the Bank's exposure to credit risk is no greater than that of an asset rated in the fourth highest credit rating category by a credit rating agency regarded as a Nationally Recognized Statistical Rating Organization ("NRSRO") by the SEC or such higher rating as the Bank may require. Under the Acquired Member Assets regulation, the portion of the credit enhancement that is an obligation of the Member or housing associate must be fully secured. A portion of the credit enhancement may also be covered by insurance, subject to limitations specified in the regulation.

The Bank, like each of the FHLBanks, has established an Acquired Member Asset program. The program involves the investment by the Bank in home mortgage loans originated by or through Members or housing associates. Under the program, the Bank acquires mortgage assets from or through Members or housing associates and the Members or housing associates retain a portion of the credit risk through credit enhancement they provide with respect to such assets. The program provides Members with an alternative to retaining mortgages in their portfolio or selling them in the traditional secondary market. The Bank currently acquires mortgages through the MPF Program which is administered by the FHLBank of Chicago.

## **Permissible Investments**

*Statutory Authority.* Subject to such regulations, restrictions and limitations as the Finance Board may impose, the Bank Act authorizes the Bank to invest surplus funds and certain reserve accounts in certain specified securities, instrument and obligations. Until recently, the Finance Board established the parameters of this authority through its Financial Management Policy, which included a list of specific investments the Bank was permitted to hold in its portfolio. The investments on this list generally were viewed by the Finance Board as narrower than that which could be deemed permissible under the statute.

*The Investment Regulation.* On July 17, 2000, the Finance Board adopted a regulation which, in part, superseded the Financial Management Policy (the "Investment Regulation"). For the most part, and subject to certain limitations, the Investment Regulation tracks the investment authority set forth in the Bank Act. Under the Investment Regulation, the Bank may invest in (1) obligations of the United States; (2) deposits in banks and trust companies; (3) obligations, participations or other instruments of or issued by Fannie Mae or Ginnie Mae; (4) mortgages, obligations or other securities that are, or ever have been, sold by Freddie Mac pursuant to 12 U.S.C. §§ 1454 or 1455; (5) stock, obligations or other securities of any small-business investment company formed pursuant to 12 U.S.C. § 681(d) (when made for the purpose of aiding Members); and (6) such instruments as fiduciary and trust funds may be invested in under the laws of the state in which the Bank is located.

*Investment Limitations.* The Investment Regulation sets forth several specific limitations on the investment authority of the Bank. These limitations generally prohibit the Bank from investing in:

- (1) instruments, such as common stock, that represent an ownership interest in an entity, other than stock in small-business investment corporations, or certain investments targeted to low-income persons or communities;
- (2) instruments issued by non-United States entities, other than those issued by United States branches and agency offices of foreign commercial banks;
- (3) non-investment grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after purchase by the Bank; and
- (4) whole mortgages or other whole loans, or interests in mortgages or loans, except (a) those acquired under the FHLBank's Acquired Member Asset programs; (b) certain investments targeted to low-income persons or communities; (c) certain marketable direct obligations of state, local or tribal government units or agencies, having at least the second highest credit rating from a NRSRO; (d) MBS; (e) asset-backed securities backed by manufactured housing loans or home equity loans; and (f) certain foreign housing loans authorized under section 12(b) of the Bank Act.

Moreover, under the Investment Regulation, the limitations and restrictions on certain authorized investments that are set forth in the Financial Management Policy remain in effect. The Finance Board's resolution approving the Bank's Capital Plan also provides for the continued applicability of certain of these investment limitations. Under these continuing limitations, the Bank's investment in MBS, collateralized mortgage obligations ("CMOs"), real estate mortgage investment conduits ("REMICs") and asset-backed securities secured by manufactured housing or home equity loans is limited to a total amount equal to 300% of the Bank's capital on the trade date of the purchase. The Bank is also prohibited under provisions of the Financial Management Policy that will remain in effect from purchasing (1) interest-only or principal-only stripped MBS, CMOs, REMICs and eligible asset-backed securities; (2) residual-interest or interest-accrual classes of CMOs, REMICs and eligible asset-backed securities; and (3) fixed-rate or floating-rate MBS, CMOs, REMICs and eligible asset-backed securities that on the trade date are at rates equal to their contractual cap, with average lives that vary more than six years under an assumed instantaneous interest rate change of 300 basis points.

*Derivative Contracts and Other Activities.* The Investment Regulation also authorizes the Bank to enter into derivative contracts which are generally defined to mean a financial contract, the value of which is derived from the values of one or more underlying assets, reference rates or indices of asset value or credit-related events and which may include interest rate, foreign exchange rate, precious metals, commodity and credit contracts, and any other instruments that pose similar risks. The Investment Regulation provides that derivative instruments that do not qualify as a hedging instrument pursuant to GAAP may be used only if a non-speculative use is documented by the Bank. The Investment Regulation also authorizes the Bank to enter into forward asset purchases and sales, commitments to make advances and commitments to make or purchase other loans.

### **New Business Activities**

The Bank generally must provide notice to the Finance Board at least 60 days prior to engaging in any new business activity (“Notice Period”). A “new business activity” means any business activity conducted or engaged in by the Bank that it has not previously conducted or engaged in or that it previously conducted or engaged in under materially different terms which (1) involves the acceptance of certain types of collateral for advances; (2) entails risks not previously and regularly managed by the Bank, its Members or both; or (3) involves operations not previously undertaken by the Bank.

During the Notice Period, the Finance Board may among other things: (1) disapprove a proposed new business activity; (2) instruct the Bank not to commence the activity pending further consideration by the Finance Board; or (3) request additional information from the Bank. The Finance Board may require the Bank to comply with certain conditions, to be determined by the Finance Board in its discretion, in order to commence a new business activity. Over the past three years, the Bank has sought and obtained the approval of the Finance Board for the following new business activities:

(1) **Accepting New Forms of Eligible Collateral**

On September 1, 2000, the Bank submitted a new business activity notice to the Finance Board regarding acceptance of new forms of collateral authorized by the GLB Act. The Finance Board approved the Bank’s new business activity notice on January 8, 2001.

(2) **Accepting Home Equity Lines of Credit as Collateral from Members**

On September 27, 2001, the Bank submitted a new business activity notice to the Finance Board regarding acceptance of home equity lines of credit as collateral pledged by Members to secure advances and other indebtedness to the Bank. The Finance Board approved the Bank’s new business activity notice on December 3, 2001.

## **Liquidity Requirements**

The Bank is required to maintain liquidity in accordance with certain Finance Board regulations and with policies established by its Board of Directors. The Bank needs liquidity to satisfy Member demand for short- and long-term funds, repay maturing consolidated obligations and meet other obligations. The specific liquidity requirements applicable to the Bank are described briefly below.

*Deposit Liquidity Requirement.* Finance Board regulations require the Bank to invest in (1) obligations of the United States; (2) deposits in banks or trust companies; or (3) advances with a maturity not to exceed five years, in an amount at least equal to the amount of current deposits received from its Members. In addition to accepting deposits from its Members, the Bank may accept deposits from any institution for which it is providing correspondent services, from any other FHLBank or from other government instrumentalities.

*Contingency Liquidity Requirement.* Under Finance Board regulations, the Bank also is required to hold “contingency liquidity” in an amount sufficient to enable it to meet its liquidity needs, assuming an inability to access the consolidated obligation debt markets for at least five business days. “Contingency liquidity” means the sources of cash the Bank may use to meet its operational requirements when its access to the capital markets is impeded and includes: (1) marketable assets with a maturity of one year or less; (2) self-liquidating assets with a maturity of one year or less; (3) assets that are generally acceptable as collateral in the repurchase market; and (4) irrevocable lines of credit from financial institutions rated not lower than the second highest credit rating category by a NRSRO.

*Risk Management Policy.* In addition to the foregoing specific regulatory requirements, the Bank has set standards in its risk management policy for day-to-day operational liquidity and contingency liquidity needs that enumerate the specific types of investments to be held by the Bank to satisfy such liquidity needs. These standards also establish the methodology to be used by the Bank for determining its operational and contingency liquidity needs.

## **Unsecured Credit Limits**

Finance Board regulations restrict the amount of unsecured credit that the Bank can extend to a particular counterparty. The regulations require the Bank to base its unsecured credit limit for an individual counterparty on a formula generally based on the long-term credit rating of the counterparty, which is then applied to the lesser of a specified measure of the Bank’s total capital or a specified measure of the counterparty’s capital. The Bank’s Credit Risk Management Policy is more restrictive than the regulation in that the maximum unsecured credit to an individual counterparty is not only governed by the capital of the Bank and the counterparty, but also governed by a specified measure of the total assets of the counterparty. The regulation also sets the amount of unsecured credit that can be extended to a United States GSE established to serve public purposes, but whose obligations are not obligations of the United States or guaranteed by the United States.

The Finance Board held a public hearing on unsecured lending by FHLBanks on March 12, 2003. It is unclear what action, if any, the Finance Board ultimately will take on unsecured lending.

## **Responsibilities of the Bank Board of Directors and Senior Management**

*Risk Management Policy.* The Board of Directors is required to have in effect a risk management policy that addresses the Bank's exposure to credit risk, market risk, liquidity risk, business risk and operation risk. The Board of Directors is required to review the risk management policy at least annually and to amend the policy as appropriate. Following approval of the Bank's Capital Plan by the Finance Board, but prior to the Capital Plan taking effect, the Bank must amend its risk management policy to describe the steps that it will take to comply with its Capital Plan and to include specific target ratios of total capital and permanent capital to total assets. On February 27, 2003, the Bank amended its risk management policy to incorporate provisions pertaining to its Capital Plan. The amended policy provides that the Bank intends to operate within a target range of total capital and permanent capital to total assets of 4% to 5%.

*Strategic Business Plan.* The Board of Directors is required to have in effect a strategic business plan that describes how the business activities of the Bank will achieve the Bank's mission consistent with the Finance Board's core mission activity regulation. This regulation identifies the following activities as core mission activities of the Bank: (1) advances; (2) acquired member assets; (3) standby letters of credit; (4) intermediary derivative contracts; (5) debt or equity investments that primarily benefit households having a targeted income level or areas targeted for redevelopment, and which serve housing and community development objectives; and (6) other debt or equity investments involving small-business investment companies or which are issued or guaranteed under certain federal government programs.

*Internal Controls.* The Bank is required to establish and maintain an effective internal control system. The internal control system must address the efficiency and effectiveness of the Bank's activities, the safeguarding of Bank assets, the reliability, completeness and timely reporting of financial and management information and compliance with applicable laws, regulations, policies and supervisory directives of the Board of Directors and senior management.

*Internal Market Risk Model and Risk Assessment Procedures.* Before the Bank's Capital Plan may take effect, the Bank must obtain Finance Board approval for its internal market risk model or the internal cash flow model used to calculate the market risk capital component of its risk-based capital requirement and for the risk assessment procedures and controls to be used to manage its credit, market and operation risks. The Bank's risk assessment procedures were approved by the Finance Board on December 17, 2002. The Bank's internal market risk model was approved by the Finance Board on March 19, 2003.

*Audit Committee.* The Board of Directors is required to establish an Audit Committee. The Audit Committee shall have the duty, among other things, to: (1) direct senior management to maintain the reliability and integrity of the accounting policies and financial reporting and disclosure practices of the Bank; (2) review the basis for the Bank's financial statements, and the external auditor's opinion with respect to such statements; (3) ensure that policies are in place that are reasonably designed to achieve disclosure and transparency regarding the Bank's true financial performance and governance practices; and (4) oversee the internal and external audit function. The members of the Bank's Audit Committee for 2003 are Messrs. Brazeale, Du Bray, Guttau, Hage, Hassel, Newman, Torpey, Woods, and Wuest, and Ms. Speckerman. All of the members of the Bank's Audit Committee are "independent" with respect to the Bank as defined

in the Finance Board's regulations. The Audit Committee met four times in 2002.

*Executive Committee.* The Board of Directors has established an Executive Committee that may exercise the powers of the Board of Directors during the intervals between the meetings of the Board of Directors. The Executive Committee has no authority, however, to appoint the President of the Bank or amend or repeal the Bank's bylaws. The members of the Executive Committee for 2003 are Ms. Baum, Messrs. Brazeale, Du Bray, Newman, Torpey, Woods, and Wuest, and Ms. Speckerman. The Executive Committee conducted one telephonic meeting in 2002.

*Bank Operations Committee.* The Board of Directors has established a Bank Operations Committee that is responsible for advising the Board of Directors in matters pertaining to the Bank's financial and risk management, strategic and business planning, and sales and marketing strategies. The members of the Bank Operations Committee for 2003 are Ms. Baum, Messrs. Cavanagh, Fruechte, Guttau, Hage, Hassel, Newman, Scallon, and Torpey, and Ms. Speckerman. The Bank Operations Committee met four times in 2002.

*Compensation, Diversity and Governance Committee.* The Board of Directors has established a Compensation, Diversity and Governance Committee that is responsible for advising the Board of Directors on human resource issues, including the specific issues of compensation, diversity and corporate governance. The members of the Compensation, Diversity and Governance Committee for 2003 are Messrs. Ahlemeyer, Cavanagh, Du Bray, Fruechte, Owens, Scallon, Torpey, Williams and Wuest, and Ms. Everist. The Compensation, Diversity and Governance Committee met four times in 2002.

The Board of Directors has formed a Director Election Oversight Subcommittee of the Compensation, Diversity and Governance Committee. This subcommittee is responsible for administering and conducting the annual election of directors. The members of the Subcommittee for 2003 are Messrs. Cavanagh, Du Bray, and Williams. The Director Election Oversight Subcommittee conducted one in-person meeting and one telephonic meeting in 2002.

*Housing and Economic Development Committee.* The Board of Directors has established a Housing and Economic Development Committee to advise it on housing and economic development needs in the Bank's district and to ensure that the Bank's housing and economic development programs are designed to meet those needs. The members of the Housing and Economic Development Committee for 2003 are Messrs. Ahlmeyer, Brazeale, Owens, Torpey, Williams, and Woods and Ms. Baum and Ms. Everist. The Housing and Economic Development Committee met four times in 2002.

The Board of Directors held six in-person meetings during 2002. Directors' attendance at these meetings averaged 95% during 2002 and each Director attended 75% or more of the total number of meeting.

## **Additional Oversight**

The Bank, like each of the FHLBanks and the Office of Finance, has an internal audit department. An independent public accounting firm audits the annual financial statements of each FHLBank and the annual combined financial statements as prepared by the Office of Finance. The independent accountant conducts these audits following generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General. The FHLBanks, the Finance Board and the Congress receive the audit reports. Each FHLBank must submit annual management reports to the Congress, the President, the Office of Management and Budget and the Comptroller General. These reports include a statement of financial condition, a statement of operations, a statement of cash flows, a statement of internal accounting and administrative control systems and the report of the independent public accountants on the financial statements.

The Comptroller General has authority under the Bank Act to audit or examine the Finance Board and the FHLBanks and to decide the extent to which they fairly and effectively fulfill the purposes of the Bank Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General may review any audit of the financial statements conducted by an independent public accounting firm. If the Comptroller General conducts such a review, then he must report the results and provide his recommendations to the Congress, the Office of Management and Budget and the FHLBank in question. The Comptroller General may also conduct his own audit of any financial statements of a FHLBank.

## **Tax Status of the FHLBanks**

The FHLBanks are exempt from all federal, state and local taxation except for real property taxes; however, the FHLBanks are required to set aside a portion of their earnings to satisfy certain public policy objectives. In particular, they are obligated to make payments to REFCORP in the amount of 20% of net earnings after operating expenses and AHP expense. In addition, annually the FHLBanks must set aside for the AHP the greater of an aggregate of \$100 million or 10% of their current year's income before charges for AHP (but after expenses for REFCORP).

## 17 Directors and Senior Officers

### Board of Directors

#### Chairman of the Board:

##### **Dale J. Torpey**

President

Washington Federal Savings  
Bank

Washington, Iowa

- Joined the Board in 1996
- Appointed Chairman January 2000
- Serves on Executive Committee

#### Vice Chairman of the Board:

##### **F. Joseph Du Bray**

SVP/General Counsel

Wellmark, Inc.

Des Moines, Iowa

- Joined the Board in 1998
- Appointed Vice Chairman June 2001
- Serves on Executive, Audit, Director Election Oversight Subcommittee of Compensation Committee and Compensation, Diversity & Governance Committees

#### **Louis K. Ahlemeyer**

Chairman

Community Bank of Pettis  
County

Sedalia, Missouri

- Joined the Board in 1998
- Serves on Compensation, Diversity & Governance and Housing & Economic Development Committees

#### **Charles L. Cavanagh**

Chairman/President

United Community Bank  
Perham, Minnesota

- Joined the Board in 1997
- Serves on Director Election Oversight Subcommittee of Compensation Committee, Compensation, Diversity & Governance and Bank Operations Committees

#### **Dan J. Williams, Sr.**

Vadnais Heights, Minnesota

- Joined the Board in 2003
- Serves on Director Election Oversight Subcommittee of Compensation Committee, Compensation, Diversity & Governance and Housing & Economic Development Committee

#### **Darlys J. Baum**

Executive Director

South Dakota Housing  
Development Authority  
Pierre, South Dakota

- Joined the Board in 2002
- Serves on Executive, Bank Operations and Housing & Economic Development Committees

#### **Barbara Everist**

Sioux Falls, South Dakota

- Joined the Board in 2003
- Serves on Compensation, Diversity & Governance and Housing & Economic Development Committees

#### **Michael K. Guttau**

Chairman and President

Treynor State Bank  
Treynor, Iowa

- Joined the Board in 2003
- Serves on Audit and Bank Operations Committees

#### **Charles R. Brazeale**

President/CEO

The Paris National Bank  
Paris, Missouri

- Joined the Board in 1997
- Serves on Executive, Audit and Housing & Economic Development Committees

#### **Neil N. Fruechte**

President

Roundbank

Waseca, Minnesota

- Joined the Board in 1996
- Serves on Compensation, Diversity & Governance and Bank Operations Committees

#### **Curtis L. Hage**

Chairman and CEO

Home Federal Bank  
Sioux Falls, South Dakota

- Joined the Board in 1994
- Serves on Audit and Bank Operations Committees

#### **Jeffrey Scott Hassel**

Bettendorf, Iowa

- Joined the Board in 2003
- Serves on Audit and Bank Operations Committees

**Randy L. Newman**

Chairman, CEO, President  
Alerus Financial  
Grand Forks, North Dakota

- Joined the Board in 1999
- Serves on Executive, Audit and Bank Operations Committees

**Timothy P. Owens**

President  
Voyager Bank  
Eden Prairie, Minnesota

- Joined the Board in 2003
- Serves on Compensation, Diversity & Governance and Housing & Economic Development Committees

**Tony Scallon**

Work Experience Coordinator  
Independent School District #197  
Minneapolis, Minnesota

- Joined the Board in 1994
- Serves on Compensation, Diversity & Governance and Bank Operations Committees

**Wendy Speckerman**

Director  
Franklin Management Company, Inc.  
Cedar Falls, Iowa

- Joined the Board in 2002
- Serves on Executive, Audit and Bank Operations Committees

**Thomas E. Woods**

President  
T.E. Woods Construction, Inc.  
Heritage Homes Designer & Builders, Inc.  
Blue Springs, Missouri

- Joined the Board in 2002
- Serves on Executive, Audit and Housing & Economic Development Committees

**John J. Wuest**

President  
Heartland Bank  
St. Louis, Missouri

- Joined the Board in 1999
- Serves on Executive, Audit and Compensation, Diversity & Governance Committees

**Senior Bank Officers**

**Patrick J. Conway**

President and  
Chief Executive Officer

**Amy E. Angle**

Senior Vice President  
General Counsel and  
Corporate Secretary

**F. James Bishop**

Senior Vice President  
Credit and Sales

**G. Andy Friedmeyer**

Senior Vice President  
Chief Information Officer

**Ronald L. Greeson**

Senior Vice President  
Operations

**Jianlin Zhai**

Senior Vice President  
Finance

Exhibit A



# Capital Plan

**July 8, 2002**

**Approved Federal Housing Finance Board July 10, 2002**



# Table of Contents

---

1	Definitions.....	67
2	Capital Structure .....	69
2.1	Authorized Capital Stock.....	69
2.2	Stock Issuance and Retirement Procedures .....	69
2.3	Minimum Investment Requirements.....	70
2.4	Membership Stock Requirements .....	70
2.5	Activity Based Stock Requirements .....	71
3	Rights and Preferences.....	72
3.1	Par Value.....	72
3.2	Ownership of Retained Earnings .....	72
3.3	Voting Rights .....	72
3.4	Dividends .....	72
3.5	Liquidation.....	73
3.6	Merger or Consolidation.....	73
4	Redemption, Repurchase and Transfer .....	74
4.1	Capital Stock Redemption .....	74
4.2	Capital Stock Repurchases.....	77
4.3	Limitations on Capital Stock Redemption or Repurchase .....	78
4.4	Transfer of Excess Stock .....	79
5	Termination of Membership .....	80
5.1	Voluntary Withdrawal from Membership .....	80
5.2	Involuntary Termination of Membership.....	80
5.3	Liquidation of Claims .....	80
6	Conversion .....	82
6.1	Member Opt-Out.....	82
6.2	Member Transition Period .....	83
6.3	Preliminary Estimate of Minimum Investment.....	83
6.4	Conversion Date.....	83
	Appendix I .....	85



## 1 Definitions

For purposes of this Capital Plan, all capitalized terms used but not defined elsewhere have the following meanings:

Acquired Member Assets means assets sold to the Bank pursuant to 12 C.F.R. Part 955 and held on the Bank's balance sheet.

Activity Based Stock means a subclass of Capital Stock that a Member is required to purchase and hold in order to obtain an advance and to engage in other transactions with the Bank.

Activity Based Stock Requirement means the level of Activity Based Stock that a Member must purchase and hold in order to obtain advances and engage in other transactions with the Bank.

Bank means the Federal Home Loan Bank of Des Moines.

Board of Directors means the Board of Directors of the Bank.

Calculation Date means the business day immediately preceding the Conversion Date, on which each Member's Minimum Investment will be determined.

Cancellation Fee means the fee the Bank will impose upon a Member that cancels or revokes a Notice of Redemption or Notice of Withdrawal.

Capital Plan means the Bank's plan for a new capital structure as required by 12 U.S.C. 1426(b), as approved by the Finance Board.

Capital Stock means the Class B stock authorized under this Capital Plan.

Commitment means any legally binding agreement that requires the Bank to make an advance, acquire Member assets, or otherwise transact business with a Member.

Conversion Date means the date upon which stock issued by the Bank prior to the implementation of this Capital Plan is converted into Capital Stock.

Excess Shares or Excess Stock means the amount or shares of each subclass of the Bank's Capital Stock held by a Member which exceeds that Member's Minimum Investment.

Finance Board means the Federal Housing Finance Board, the regulator of the Federal Home Loan Bank System, or any successor thereto.

Member means any institution that has been approved for membership in the Bank and has purchased the required amount of Membership Stock.



Membership Stock means a subclass of Capital Stock that a Member is required to purchase and hold as a condition of membership in the Bank.

Membership Stock Requirement means the level of Membership Stock that a Member must purchase and maintain as a condition of membership.

Minimum Investment means the amount of Membership Stock necessary for a Member to satisfy its Membership Stock Requirement and the amount of Activity Based Stock necessary for a Member to satisfy its Activity Based Stock Requirement.

Notice of Redemption means any written request by a Member to the Bank to redeem Capital Stock.

Notice of Withdrawal means the written notice by a Member to the Bank of that Member's intention to withdraw from membership in the Bank.

Opt-out Date means the date 30 calendar days prior to the Conversion Date.

Total Assets means a Member's total assets as reported to the Member's primary regulator or on its audited financial statement.



## 2 Capital Structure

### 2.1 Authorized Capital Stock

The Bank issues Capital Stock only in accordance with 12 C.F.R. Section 931.2 and in accordance with this Capital Plan.

Capital Stock is composed of the following subclasses:

- Membership Stock; and
- Activity Based Stock

### 2.2 Stock Issuance and Retirement Procedures

The Bank acts as its own transfer agent and issues all stock in book-entry form.

The Bank does not issue fractional shares of Capital Stock. A Member's Minimum Investment shall be rounded up to the next \$100. Any dividend declared in the form of Capital Stock shall be rounded down to the next \$100 and any fractional shares shall be distributed in the form of a cash dividend.

Capital Stock may be purchased and held only by Members, former Members that are required to hold Capital Stock after their membership has terminated in order to support outstanding advances and other transactions with the Bank, and entities that acquire Members, such as through mergers or consolidations, but which themselves are not Members.

The Bank issues Capital Stock in a Member's name, credits the Member's Membership Stock or Activity Based Stock balance, as appropriate, and debits the Member's demand deposit account for any payment due.

Upon redemption or repurchase of Capital Stock, the Bank retires the stock, debits the Member's Membership Stock or Activity Based Stock balance, as appropriate, and credits the Member's demand deposit account with any proceeds.

The Bank shall not permit a Member to convert any Excess Shares of Capital Stock between sub-classes of Capital Stock.



## **2.3 Minimum Investment Requirements**

The Board of Directors has a continuing obligation to review and adjust the Minimum Investment as necessary to ensure that the Bank remains in compliance with its capital requirements. The Bank shall provide notice to each stockholder of any adjustment to the Minimum Investment and the effective date of any such adjustment at least 15 days prior to the effective date of any such adjustment. Upon the effective date of any such adjustment, the Bank shall, as applicable, issue any Capital Stock in accordance with section 2.2 or repurchase any Capital Stock in accordance with section 4.

A Member must comply promptly with any adjustments the Board of Directors makes to the Minimum Investment.

## **2.4 Membership Stock Requirements**

The Board of Directors has established a Membership Stock Requirement identified in Appendix I. The Board of Directors may adjust the Membership Stock Requirement within the ranges specified in Appendix I. Each Member is required to purchase and maintain Membership Stock in an amount equal to its Membership Stock Requirement, as calculated by the Bank.

At least annually, the Bank calculates each Member's Membership Stock Requirement as a percentage of Total Assets as of the preceding December 31st. The Bank will notify each Member of its Membership Stock Requirement at least 15 days prior to the effective date of any adjustments that the Bank shall make to the Member's Membership Stock balance as a result of such annual calculation. If a Member's Membership Stock Requirement has increased since the last time the Bank calculated the Member's Membership Stock Requirement, the Bank shall issue Membership Stock in accordance with section 2.2.

The Bank, in its discretion, may recalculate any member's Membership Stock Requirements more often than annually if the Bank deems it appropriate. The Bank may recalculate a Member's Membership Stock Requirement if requested by the Member, or in the Bank's discretion. In each of these cases, the Bank will calculate the Membership Stock Requirement based on the Member's Total Assets as of the end of the most recent calendar quarter for which financial information is available.



## **2.5 Activity Based Stock Requirements**

The Board of Directors has established an Activity Based Stock Requirement identified in Appendix I. The Board of Directors may adjust the Activity Based Stock Requirement within the ranges specified in Appendix I. The Board of Directors may apply changes in the Activity Based Stock Requirement only to new advances and other transactions, or to new and existing advances and other transactions.

Each Member is required to purchase and maintain Activity Based Stock in an amount equal to its Activity Based Stock Requirement, as calculated by the Bank, as long as the advance or other transaction remains recorded on the Bank's books and records. Acquired Member Assets held by the Bank on the Conversion Date shall be subject only to capital requirements specified in contracts in effect at the time the assets were acquired by the Bank prior to the Conversion Date.

The Bank calculates each Member's Activity Based Stock Requirement daily. The Bank shall notify each Member of any increase in its Activity Based Stock Requirement and issue Activity Based Stock to the Member in accordance with section 2.2.



## **3 Rights and Preferences**

### **3.1 Par Value**

Capital Stock shall be issued, transferred, redeemed, and repurchased at a par value of \$100.

### **3.2 Ownership of Retained Earnings**

The retained earnings, paid-in surplus, undivided profits and equity reserves, if any, of the Bank are owned by the stockholders of Capital Stock in an amount proportional to the stockholder's share of the total shares of issued and outstanding Capital Stock. Stockholders have no right to receive any portion of these items except through the declaration of a dividend or capital distribution approved by the Board of Directors or upon liquidation of the Bank.

### **3.3 Voting Rights**

The voting rights associated with Capital Stock are defined in and governed by the Finance Board's regulations. No share of Capital Stock shall have any voting preference.

### **3.4 Dividends**

Except as otherwise provided herein or by regulation or statute, the Board of Directors has sole discretion to determine the amount, form, frequency and timing of dividend payments for each subclass of Capital Stock. The Board of Directors may declare different dividends for each subclass of Capital Stock. Dividend payments may be made in the form of cash, additional shares of Capital Stock, or a combination thereof as determined by the Board of Directors. Unless the Board of Directors declares otherwise, dividends are non-cumulative.

Dividends may only be paid from current earnings or previously retained earnings. The Board of Directors may not declare or pay any dividends if the Bank is not in compliance with its capital requirements or, if after paying the dividend, the Bank would not be in compliance with its capital requirements.

Each Member will be entitled to receive dividends on Capital Stock held during the applicable dividend period for the period of time the Member owned the Capital Stock. The Bank pays dividends on Capital Stock as long as it is issued and outstanding, regardless of whether a Member has provided a Notice of Redemption or Notice of Withdrawal or a stockholder has terminated membership for any reason.



### **3.5 Liquidation**

If the Bank is liquidated, after payment in full to the Bank's creditors, the Bank's stockholders shall be entitled to receive the par value of their Capital Stock, as well as any retained earnings, in an amount proportional to the stockholder's share of the total shares of Capital Stock.

### **3.6 Merger or Consolidation**

The Board of Directors shall determine the rights and preferences of the Bank's stockholders in connection with any merger or consolidation, subject to any terms and conditions imposed by the Finance Board.



## 4 Redemption, Repurchase and Transfer

### 4.1 Capital Stock Redemption

Capital Stock is redeemable on five years written notice to the Bank. The Bank shall not be obligated to redeem a Member's Capital Stock other than in accordance with the Capital Plan, and is not permitted to redeem Capital Stock if such redemption would cause the Member to fail to meet its Minimum Investment.

#### 4.1.1 Notice of Redemption

A Member may redeem Capital Stock by providing a Notice of Redemption to the Bank specifying the sub-class and the number of shares of Capital Stock to be redeemed. A Member shall not have more than one Notice of Redemption outstanding at any one time for the same shares of Capital Stock.

The redemption period commences upon the Bank's receipt of the Notice of Redemption. The Bank honors Notices of Redemption in the order in which the Bank receives them.

The Bank shall redeem the Capital Stock identified in a Notice of Redemption following the expiration of the redemption period and pay the stated par value of that Capital Stock to the Member in cash in accordance with section 2.2 and subject to the limitations set forth in section 4.3, unless the Bank exercises its discretionary authority to repurchase Excess Stock in accordance with section 4.2 prior to that time.

#### 4.1.2 Cancellation of Notice of Redemption

A Member may cancel a Notice of Redemption prior to the end of the redemption period by providing written notice to the Bank of its intent to cancel its Notice of Redemption. The Bank will charge the Member a Cancellation Fee equal to the following:

- one percent of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within one year of the day the Bank received the Notice of Redemption;



- two percent of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within two years of the day the Bank received the Notice of Redemption;
- three percent of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within three years of the day the Bank received the Notice of Redemption;
- four percent of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within four years of the day the Bank received the Notice of Redemption;
- five percent of the par value of the shares of Capital Stock subject to the Notice of Redemption if the Bank receives the cancellation of Notice of Redemption within five years of the day the Bank received the Notice of Redemption.

The Board of Directors may change the Cancellation Fee to any percentage of the par value of the shares of Capital Stock subject to the cancelled Notice of Redemption that is not less than 0.0 percent and not more than the percentages specified in the preceding paragraph. If the Board of Directors changes the Cancellation Fee, the Board of Directors will also determine whether the changed Cancellation Fee will apply to the cancellation of any previously submitted Notice of Redemption as well as those submitted in the future. Otherwise, the Cancellation Fee in effect at the time the Bank received the Notice of Redemption will apply to the cancellation of that Notice of Redemption. The Bank will notify Members in writing at least 15 days in advance of any changes in the Cancellation Fee.

A Notice of Redemption by a Member (whose membership has not been terminated) shall be automatically cancelled if, within five business days after the end of the applicable redemption notice period, the Bank is prevented from redeeming the Member's Capital Stock because the Member would fail to maintain its Minimum Investment after such redemption. The automatic cancellation shall have the same effect as a voluntary cancellation and the Bank shall impose the Cancellation Fee described in the preceding paragraph.



### 4.1.3 Notice of Withdrawal

The Bank's receipt of a Notice of Withdrawal commences the five-year redemption period for all Capital Stock held by that Member that is not already subject to a pending Notice of Redemption. The redemption period for Membership Stock purchased subsequent to the Bank's receipt of a Member's Notice of Withdrawal shall be deemed to have commenced when the Bank issued such Membership Stock. Following the expiration of the redemption period, the Bank shall pay the stated par value of the Capital Stock to the Member in cash, in accordance with section 2.2 and subject to the limitations set forth in sections 4.3 and 5.3.

### 4.1.4 Cancellation of Notice of Withdrawal

A Member may cancel a Notice of Withdrawal prior to the end of the redemption period by providing written notice to the Bank of its intent to cancel its Notice of Withdrawal. The Bank will charge the Member a Cancellation Fee on the par value of the Member's Capital Stock balance as described in section 4.1.2.

### 4.1.5 Termination of Membership

If an institution's membership has been terminated as a result of a merger or consolidation into a nonmember or into a member of another Federal Home Loan Bank, the redemption period for any Capital Stock that is not subject to a pending Notice of Redemption shall be deemed to commence on the date on which the charter of the former member is terminated.

If an institution's membership is involuntarily terminated, the redemption period for all Capital Stock owned by the former member and not already subject to a pending Notice of Redemption shall commence on the date that the Board of Directors terminates the institution's membership.



## 4.2 Capital Stock Repurchases

The Bank, in its discretion, may repurchase any Excess Shares without regard to any redemption period.

### 4.2.1 Membership Stock

Upon 15 days written notice to Members, the Bank may, in its sole discretion, repurchase Membership Stock which the Bank determines is Excess Stock without regard to the five-year redemption notice period. The Bank shall repurchase any such Excess Stock in accordance with section 2.2 and subject to the limitations set forth in section 4.3.

Any repurchase of Membership Stock automatically reduces the amount of Membership Stock that is the subject of any outstanding Notice of Redemption by the amount of Membership Stock repurchased. If a Member has Membership Stock that is subject to more than one Notice of Redemption, the Bank will automatically reduce the amount of Membership Stock that is subject to such outstanding Notices of Redemption in the same order in which the Bank received such Notices of Redemption.

A Member's submission of a Notice of Withdrawal in accordance with section 5.1, or its termination of membership in any other manner, will not, in and of itself, cause any Membership Stock to be deemed Excess Stock for purposes of this section.

### 4.2.2 Activity Based Stock

Each Member may hold Excess Shares of Activity Based Stock up to the operational threshold established in Appendix I. The Board of Directors may, from time to time, increase or decrease the operational threshold within ranges specified in Appendix I. The Bank will notify each Member of a change in the operational threshold at least 15 days prior to implementing the change.

The Bank will repurchase any Excess Shares of Activity Based Stock that exceed the operational threshold established in Appendix I, on at least a scheduled, monthly basis in accordance with section 2.2 and subject to the limitations set forth in section 4.3. The Bank will notify Members at least 15 days in advance of the scheduled date(s) for repurchasing Activity Based Stock and prior to implementing any changes in the scheduled date(s) for repurchasing Activity Based Stock.



## 4.3 Limitations on Capital Stock Redemption or Repurchase

The Bank will not redeem or repurchase Capital Stock:

- without the prior written approval of the Finance Board, if the Finance Board or the Board of Directors has determined that the Bank has incurred, or is likely to incur, losses that result in or are likely to result in charges against the capital of the Bank. This prohibition shall apply even if the Bank is in compliance with its capital requirements, and shall remain in effect for however long the Bank continues to incur such charges or until the Finance Board determines that such charges are not expected to continue; or
- if the redemption or repurchase would cause the Bank to be out of compliance with its capital requirements; or
- if the redemption or repurchase would cause a Member to be out of compliance with its Minimum Investment; or
- if the sum of all requested Capital Stock redemptions that the Bank is scheduled to make on any date equals or exceeds the amount that would cause the Bank to fall below its capital requirements, in which case the Bank will process redemptions in the order in which notification was received, but in no case will the Bank redeem Capital Stock to the point that it would fail to meet its capital requirements.

The Bank, upon the approval of its Board of Directors, or of a subcommittee thereof, may suspend redemption of Capital Stock if the Bank reasonably believes that continued redemption of Capital Stock would cause the Bank to fail to meet its capital requirements, would prevent the Bank from maintaining adequate capital against a potential risk that may not be adequately reflected in its capital requirements, or would otherwise prevent the Bank from operating in a safe and sound manner. The Bank will notify the Finance Board in writing within two business days of the date of the decision to suspend the redemption of Capital Stock, informing the Finance Board of the reasons for the suspension and of the Bank's strategies and time frames for addressing the conditions that led to the suspension. The Finance Board may require the Bank to reinstitute the redemption of Capital Stock. The Bank will not repurchase any Capital Stock without the written permission of the Finance Board during any period in which the Bank has suspended redemption of Capital Stock under this paragraph.



## 4.4 Transfer of Excess Stock

With the prior approval of the Bank, a Member may transfer Excess Stock to another Member that controls, is controlled by, or is under common control with the Member.

If a Member that has filed a Notice of Redemption transfers Excess Stock that is subject to that notice to another Member, the transfer shall be deemed to be a cancellation of the Notice of Redemption on the Excess Stock transferred upon the effective date of the transfer. The transferring Member shall be responsible for paying any applicable Cancellation Fees in accordance with section 4.1.2.

If a Member that has filed a Notice of Withdrawal transfers Excess Stock to another Member, the transfer shall be deemed to be a cancellation of the five-year redemption period on the Excess Stock transferred. The transferring Member shall be responsible for paying any applicable Cancellation Fees in accordance with section 4.1.2.

The Bank shall transfer Capital Stock only in accordance with 12 C.F.R. Section 931.6. The Bank will not approve a Capital Stock transfer if the transfer would result in the transferring Member being out of compliance with its Minimum Investment. Capital Stock may be traded only between the Bank and its members. All Capital Stock transfers are to be at par value and are effective upon being recorded on the appropriate books and records of the Bank.



## **5 Termination of Membership**

A Member's submission of a Notice of Withdrawal, or its termination of membership in any other manner, shall not, in and of itself, cause any Capital Stock to be deemed Excess Stock.

If a former member's membership has been withdrawn, terminated involuntarily, or terminated as a result of a merger or consolidation, the Bank shall redeem such former member's Capital Stock in accordance with section 4.1 and subject to the limitations in sections 4.3 and 5.3.

### **5.1 Voluntary Withdrawal from Membership**

Any institution may withdraw from membership by providing a Notice of Withdrawal.

A Member that has submitted its Notice of Withdrawal continues to have access to the benefits of membership until the effective date of its withdrawal, but the Bank does not have to provide any further services, including advances, that would mature or otherwise terminate subsequent to the effective date of the withdrawal.

The membership of an institution that has submitted a Notice of Withdrawal shall terminate five years from the date of the Bank's receipt of the Member's Notice of Withdrawal, unless the institution has cancelled its Notice of Withdrawal prior to that date.

### **5.2 Involuntary Termination of Membership**

The Board of Directors may terminate a Member's membership pursuant to the Finance Board's regulations. A Member whose membership is terminated involuntarily shall cease being a Member as of the date on which the Board of Directors acts to terminate the membership, and the institution shall have no right to obtain any of the benefits of membership after that date, but shall be entitled to receive any dividends declared on its Capital Stock until the Capital Stock is redeemed or repurchased by the Bank.

### **5.3 Liquidation of Claims**

If an institution withdraws from membership or has its membership terminated, the Bank will determine an orderly manner for:

- liquidating all outstanding indebtedness (including prepayment fees) owed by that Member to the Bank, and
- settling all other claims against the Member.



If an institution that withdraws from membership or has its membership terminated remains indebted to the Bank or has outstanding any transactions with the Bank after the effective date of its termination of membership, the Bank shall not redeem or repurchase any Activity Based Stock if such redemption or repurchase is subject to any of the limitations in section 4.3. The Bank shall redeem or repurchase any Activity Based Stock in accordance with section 2.2.



## **6 Conversion**

The Bank will convert to the capital structure established by this Capital Plan within 18 months following Finance Board approval of the Capital Plan.

The Bank will notify each Member of the Conversion Date within 180 days after the Finance Board's approval of the Capital Plan.

The Bank will provide each Member with a disclosure document that complies with 12 C.F.R. Section 933.5 at least 45 days, but not more than 60 days prior to, the Opt-out Date.

The Bank intends to be in full compliance with its capital requirements at the close of business on the Conversion Date.

### **6.1 Member Opt-Out**

A Member that does not wish to continue membership under the Capital Plan must provide the Finance Board and the Bank with a Notice of Withdrawal no later than the Opt-out Date. The membership of an institution that files a Notice of Withdrawal with the Finance Board on or before the Opt-out Date shall terminate on the earlier of the Conversion Date or the date six months from the date the Notice of Withdrawal was filed with the Finance Board. The Member shall not be subject to a Membership Stock Requirement on the Conversion Date but shall be subject to the Activity Based Stock Requirement so long as any advance or other transaction remains recorded on the Bank's books and records, provided, however, that the Activity Based Stock Requirement for a Member that has submitted a Notice of Withdrawal on or before the Opt-Out Date shall be the lesser of the requirement in effect prior to the Conversion Date or the requirement under this Capital Plan. The Bank's receipt of the Notice of Withdrawal commences the five-year redemption period for all Activity Based Stock held by that Member.

Any Member filing a Notice of Withdrawal with the Finance Board after the Opt-out Date and before the Conversion Date shall have its existing stock converted into Capital Stock on the Conversion Date as required by the Capital Plan. The effective date of withdrawal for such Member shall be five years from the receipt of the Notice of Withdrawal and the five-year redemption period shall commence on receipt of the Notice of Withdrawal.



## **6.2 Member Transition Period**

Members must comply with the terms of the Capital Plan on the Conversion Date.

Any institution that becomes a Member after the Conversion Date must comply with the Minimum Investment upon becoming a Member.

## **6.3 Preliminary Estimate of Minimum Investment**

At least 30 days prior to the Conversion Date, the Bank will calculate each Member's Minimum Investment as the sum of:

- the Membership Stock Requirement based on the Total Assets as of the immediately preceding December 31st; and
- the Activity Based Stock Requirement based on the Member's outstanding advances and other transactions at the close of business on that date, provided, however, that any Acquired Member Assets held by the Bank on the Conversion Date shall be subject to capital requirements specified in contracts in effect at the time the assets were purchased in lieu of the Activity Based Stock Requirement.

The Bank will notify each Member of the preliminary estimate of the Member's Minimum Investment and Excess Stock, if any.

A Member must notify the Bank at least 15 days prior to the Conversion Date that the Member wants the Bank to repurchase any shares of stock that exceed that Member's Minimum Investment on the Conversion Date. If the Bank receives such notice at least 15 days prior to the Conversion Date, the Bank shall repurchase all such shares on the Conversion Date in accordance with section 2.2 and subject to the limitations set forth in section 4.3. If the Bank does not receive such a notice from a Member at least 15 days prior to the Conversion Date, the Bank shall convert all shares of stock that exceed that Member's Minimum Investment on the Conversion Date into Excess Shares of Membership Stock.

## **6.4 Conversion Date**

At the opening of business on the Conversion Date, the Bank will take the following actions in the order specified for each Member:

- a) Calculate a Member's Minimum Investment at the opening of business on the Conversion Date as the sum of:



- the Membership Stock Requirement based on the Total Assets as of the immediately preceding December 31st; and
  - the Activity Based Stock Requirement based on the Member's outstanding advances and other transactions at the close of business on the Calculation Date, provided, however, that any Acquired Member Assets held by the Bank on the Conversion Date shall be subject to capital requirements specified in contracts in effect at the time the assets were purchased in lieu of the Activity Based Stock Requirement.
- b) Convert the Member's existing shares of stock into an identical number of shares of Capital Stock by:
- Crediting the Member's Membership Stock balance with the lesser of the total number of shares converted or the number of shares required to meet the Member's Membership Stock Requirement;
  - Crediting the Member's Activity Based Stock balance with the lesser of the remaining number of shares converted or the number of shares required to meet the Member's Activity Based Stock Requirement; and
  - Crediting any remaining existing stock to the Member's Membership Stock balance unless the Member has elected to have the Bank repurchase any remaining existing shares on the Conversion Date.
- c) If the Member does not own sufficient Capital Stock to satisfy its Minimum Investment following the conversion, issue Capital Stock and credit the Member's Capital Stock accounts with the number and sub-class of shares that the Member is required to own on the Conversion Date to meet its Minimum Investment and make a corresponding debit to the Member's demand deposit account at the Bank;
- d) If the Member has elected to have the Bank repurchase existing stock in excess of the amount needed to satisfy the Minimum Investment, the Bank will repurchase such existing shares and make a corresponding credit to the Members' demand deposit account at the Bank; and
- e) Advise the Member of its Minimum Investment, its Membership Stock balance, its Activity Based Stock balance, and the amount of any funds credited or debited to the Member's demand deposit account at the Bank.



## Appendix I

### Membership Stock Requirement

Each Member is required to purchase and maintain Membership Stock equal to the following:

	<u>Membership Stock Requirement<sup>2</sup></u>	<u>Minimum Investment Range<sup>1</sup></u>	
		<u>Minimum</u>	<u>Maximum</u>
% of Total Assets	0.12%	0.10%	0.25%
Membership Stock Cap	\$10 million	\$10 million	\$30 million
Membership Stock Floor	\$10,000	\$10,000	\$30,000

### Activity Based Stock Requirement

Each Member is required to purchase and maintain Activity Based Stock equal to the percentage of the book value on the Bank's books and records of the following transactions as shown in the table below.

<u>Transaction</u>	<u>Activity Based Stock Requirement<sup>2</sup></u>	<u>Minimum Investment Range<sup>1</sup></u>	
		<u>Minimum</u>	<u>Maximum</u>
Outstanding Advances	4.45%	3.0%	5.00%
Outstanding Acquired Member Assets <sup>3</sup>	4.45%	3.0%	5.00%
Standby Letters of Credit	0.15%	0.0%	0.175%
Advance Commitments	0.00%	0.0%	0.35%
Acquired Member Asset Commitments	0.00%	0.0%	0.60%

### Operational Threshold

Each Member is permitted to retain Excess Shares of Activity Based Stock in an amount not to exceed the following operational threshold, designed to minimize the number of repurchase transactions for the Bank and its Members.

	<u>Current Operational Threshold</u>	<u>Operational Threshold Range<sup>1</sup></u>	
		<u>Minimum</u>	<u>Maximum</u>
Operational Threshold	\$50,000	\$0	\$250,000

<sup>1</sup> Changes to the Minimum Investment and operational threshold ranges constitute amendments to the Capital Plan and requires approval by the Finance Board.

<sup>2</sup> The Board of Directors reviews and adjusts the Membership Stock Requirement, Activity Based Stock Requirement and the Current Operational Threshold within the established ranges, subject to the Member notification requirements in section 2.3. Initial requirements and thresholds that will be applied on the Conversion Date will be disclosed to Members consistent with 12 C.F.R. Section 933.5.

<sup>3</sup> Any Acquired Member Assets held by the Bank on the Conversion Date shall be subject to capital requirements specified in contracts in effect at the time the assets were purchased in lieu of the initial Activity Based Stock Requirement.

**Exhibit B**

**Request for Bank to Repurchase Capital Stock That Exceeds  
Member's Minimum Investment**

(Bank must receive this request by June 16, 2003)

[Date]

Allyn Dixon  
FHLB Des Moines  
Skywalk Level, 801 Walnut Street, Suite 200  
Des Moines, IA 50309

RE: REQUEST FOR FEDERAL HOME LOAN BANK OF DES MOINES TO  
REPURCHASE CAPITAL STOCK THAT EXCEEDS MEMBER'S MINIMUM  
INVESTMENT AT CONVERSION

Dear Mr. Dixon:

With this letter the [insert name of Member financial institution] ("Member") hereby requests that the Bank repurchase at conversion [all Capital Stock that exceeds our minimum investment.] OR [\$\_\_\_\_\_ par value of Capital Stock that exceeds our minimum investment.]

Sincerely,

[signature and title of officer of the Member]

**Exhibit C**

**Notice of Withdrawal**

(Finance Board must receive this notice by May 30, 2003)

[Date]

Ms. Elaine Baker  
Executive Secretariat  
Federal Housing Finance Board  
1777 F Street, N.W.  
Washington, DC 20006

RE: NOTICE OF OPT-OUT OF FEDERAL HOME LOAN BANK OF DES MOINES  
("BANK") CAPITAL CONVERSION AND WITHDRAWAL FROM MEMBERSHIP

Dear Ms. Baker:

With this letter the [insert name of member financial institution] ("Member") hereby provides notice that it is opting out of the conversion of its existing Bank stock to new Capital Stock (defined as Class B stock under Finance Board regulations) and withdrawing from membership in the Bank.

Sincerely,

[signature and title of officer of the Member]

cc: Federal Home Loan Bank of Des Moines  
Attn: Corporate Secretary  
Skywalk Level, 801 Walnut Street, Suite 200  
Des Moines, IA 50309



Skywalk Level  
801 Walnut Street, Suite 200  
Des Moines, IA 50309  
800.544.3452  
[www.fhlbdm.com](http://www.fhlbdm.com)